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PRESENTATION BY SIR PETER PARKER,
CHAIRMAN OF THE BRITISH RAILWAYS
BOARD, ON BRITISH RAILROAD
EXPERIENCE

PREPARED FOR THE USE OF THE
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PRESENTATION BY SIR PETER PARKER, CHAIRMAN OF THE BRITISH RAILWAYS BOARD, ON BRITISH RAILROAD EXPERIENCE

WEDNESDAY, SEPTEMBER 27, 1978

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TRANSPORTATION AND COMMERCE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 2123 of the Rayburn House Office Building, Hon. Fred B. Rooney, chairman of the subcommittee, presiding.

Mr. ROONEY. The subcommittee will please be in order.

Sir Peter, before we begin, I would like to tell you something, if you don't already know about the Congress of the United States.

Generally we go into session at noon and end somewhere around 5 or 6 o'clock. Unfortunately we are coming to the hour where we are about to conclude this 95th Congress and we have erratic hours, anywhere from 10 o'clock in the morning until midnight.

Last night I was late and I didn't hear your comments at the Embassy because we were in session until 8 o'clock. The dinner I attended with the steel caucus precluded my being at the Embassy earlier. I sincerely apologize for that.

You will note some of the members, or almost all of the members of this committee, are not here as of yet. We have something like 21 standing committees in the House and I don't know how many subcommittees.

When I came here 15 years ago, someone would say "Mr. Chairman," and the chairman would turn around. I was walking down the aisle the other day and 1 of the pages said, "How do you do, Mr. Chairman?" and about 10 guys turned around. Everybody is a chairman.

But they have other conflicts of interest, and also we will be interrupted by the bells. When you hear two bells or three bells, that indicates there is a rollcall or quorum call. But if you will just bear with us for the rest of the day, we will appreciate hearing from you.

We are very pleased to welcome the delegation of the railroad officials from Great Britain, led by you, Sir Peter, Chairman of the British Railways Board.

As many of you know, the British railroads have been nationalized for many, many years. However, we have not asked these rail experts to come here to discuss the issue of nationalization. Rather, we have requested your attendance here to learn what we can about the management system, technological programs and marketing innovations which the British rail system has employed.

The committee will be confronted with several important issues in the near future for which knowledge of other countries' rail systems should be most helpful. I am particularly hopeful that we can learn from these gentlemen how to get the most for our Federal dollars with respect to programs such as Amtrak.

For instance, as we face the reevaluation of Amtrak in the inflationary economy, I would like to know if other countries are able to provide financial support for passenger services on a more efficient basis. If other countries can accomplish a degree of financial control over Government support to railroads, we should be able to do so within the private enterprise framework we have established for railroad assistance in the United States.

I am confident, sir, that you and your distinguished colleagues can offer this committee some important new insights into the railroad development process.

My colleague, Mr. Skubitz, is in the Interior Committee and he was very sorry that he could not be here for the opening remarks. With your indulgence I will read what Mr. Skubitz would like you to know.

He warmly welcomes you this morning and continues:

"This subcommittee under your guidance, Mr. Chairman, has had the opportunity of listening to many distinguished witnesses. We have had witnesses attempt to defend Amtrak and ConRail and many more who have been critical of our two favorite topics.

"However, I cannot recall having a witness before this subcommittee with both outstanding railroad expertise and a built-in fresh outlook on our national problem, not to say disaster.

"Sir Peter, I know I speak for all the members of this subcommittee, and certainly many members of the public and the media who are here today, that it is our hope that you will bring to us a fresh insight and some new ideas in how we are to handle our Amtrak, our ConRail, and the rest of the Nation's railroads.

"There is no doubt that there are silent differences between British railroads as they have evolved and the way our American railroads have developed. However, there are also certain fundamental similarities in philosophy, in social responsibility, and in management of a railroad system which will make the presentation you are to give us today of great value to us.

"I know you have taken a great deal of time from your busy schedule to appear before this subcommittee. I am certain that we will learn from you this morning, and certainly if you succeed in providing us with some ideas for an elegant solution to our problems you will have contributed to American railroading.

"I trust that both Amtrak and ConRail have observers here this morning for it would behoove them to listen carefully, as I have no doubt that this will be their only opportunity to benefit from free advice from an organization which has built up an outstanding success record.

"I am always uncomfortable when consultants appear before this subcommittee. For some reason, it always appears that they are the product of failure rather than success. Thus, the railroad consultants who appear before us always seem to draw their expertise from their lifetime of work with the Penn Central or other bankrupt railroads.

"It is the management and engineering philosophy of railroads such as the Penn Central which have led us to many of our present prob-

lems, and I simply cannot see the leopard changing his spots simply because he has become a consultant.

"You are, therefore, all the more welcome here this morning, Sir Peter, in that you may teach us from your mistakes what we seem to be unable to learn from ours. I am sure that all American railroads can learn from the management and engineering techniques which you have developed over the past few years in the United Kingdom.

"If you have been successful in convincing railroads from Hong Kong to Kuwait, and from Canada to Argentina, that your expertise is the best available, then I am sure that you will be equally successful in the United States in promoting and selling your technology.

"Sir Peter, to use one of your expressions, welcome to the Piranha bowl."

I am very pleased to note that we have with us three members of the Interstate Commerce Commission, the Honorable Betty Jo Christian, the Honorable Virginia Mae Brown, and the Honorable Charles Clapp. I welcome you. You may proceed.

STATEMENTS OF SIR PETER PARKER, CHAIRMAN, BRITISH RAILWAYS BOARD, ACCOMPANIED BY K. V. SMITH, MANAGING DIRECTOR, TRANSMARK; R. B. REID, MEMBER; JOHN F. THRING, COMMERCIAL DIRECTOR OF BRITISH RAIL ENGINEERING, LTD.; DR. KENNETH SPRING, HEAD OF RESEARCH OF BRITISH RAIL; COLIN BRACEWELL, EXECUTIVE AIDE TO THE CHAIRMAN; AND GWEN COWAN, EXECUTIVE SECRETARY TO THE CHAIRMAN

SIR PETER PARKER. You have been very kind in your introduction of myself and my colleagues. Perhaps it would help if I got off the mark quickly to introduce them to you.

On my right is Bob Reid, who is the member of our board responsible for marketing. On his right is Ken Spring who is head of research and technology. On his right is Colin Bracewell, and on his right is Mrs. Cowan, two aides in my office.

On my left is Ken Smith, who is the managing director of our international consultant operation and whose company is Transmark which deals with exports. On his left is John Thring, who is the commercial director of our engineering group of 35,000 people.

We are immensely privileged to have the chance of appearing before you. The reason I brought these colleagues is that I think it was Emerson who said, "No organization is the shadow of a man." I hope that your questions, and I hope you don't mind, will be spread among us.

We are conscious that we come from a much smaller country and a smaller network, and we are deeply privileged to be allowed to talk about our experience. I think we are anxious that we should not attempt to present ourselves as if it is all sunshine down the tracks.

We have great problems in the United Kingdom in the renaissance of our railroads. But I do believe the signs are there that give us great hope that we are beginning to move into a new phase of certainty in our affairs after what have been decades of doubt.

We reckon there is a real chance that the decades of doubt are over within the relationship of railways to government and to the citizens.

I know that you will have had had a chance, Mr. Chairman, of having a look at the statement which we have presented. I am a bit sorry it is rather long-winded. It does, I hope, introduce the theme of railways in Britain with something of a historical runup.

I would like to touch on the document under three headings if that would be appropriate.

Mr. ROONEY. Do you wish to summarize your statement?

Sir PETER PARKER. Yes.

Mr. ROONEY. Without objection your statement will become a part of the record [see p. 7] and you may summarize your statement. I might say you should be very comfortable, and as to the name "Rooney", don't let it scare you. My father was born in Stockport, England.

Sir PETER PARKER. It is good to know the roots are there, Mr. Chairman. I was going to check with my colleagues about where Stockport is.

Well there are three points really in this document that perhaps are worth focusing on. I am afraid it is rather long and we put a lot of history in it. It was one of your great industrialists who said, "History is bunk." But we have to see our position in the perspective of history.

We have had a generation now of being nationalized. I don't like the phrase "nationalized" anymore. It really simply reminds people of a trauma that we went through 30 years ago. We are now a national industry.

In those 30 years we have seen the evolution of new policies around railways which have totally changed the original assumptions, I believe, of the act.

Railways in Britain probably had their high noon at the turn of the century. By World War I, 120 companies were being merged into roughly four great groups. By World War II, in the march of events, those companies were pretty bankrupt and we ended up after the war with the natural logical step of a centralized system for what is a small island. That was really the background of the act.

But at the time of nationalization, the economic environment for railroads was obviously totally different. The competition was hardly there. As I put it, the permanent way almost conveyed a kind of divine right, and the private ownership of the motor corps had hardly started. The map of our industry was totally different from what it is now.

Since the nationalization in 1967, we have emerged from an industry which was really in a protected position by its own preeminence as a mode of transport into what has got to be considered a commercial concern.

So the first point I would like to touch on from our statement is that it is a commercial organization. Our concern is commercial and we are a commercial concern.

It may well be that you would want to probe us on how we see that.

But we regard ourselves as a group of groups. We have in the railways a whole set of different businesses. We have passenger business. We have nonpassenger business which, of course, is freight, and other activities.

Beyond railways, we have a shipping group which is the biggest short sea shipping group in the world. We have a hotel group and a property group which are among the biggest half dozen in Britain.

We have an engineering group of 35,000 people who are our main source of supply, and we have an export activity which is running toward, I would hope, 100 million pounds this year.

So it sounds like the Penn Central with hotels and railroads. I hope we can define our relationship without going over my shoulder at history as all being relationships of transport. All of these groups are interconnected in our transport concern. We are a transport conglomerate and not a general conglomerate.

Mr. ROONEY. Sir Peter, I am so pleased to see my colleague, Mr. Madigan, arrive at this point.

Sir PETER PARKER. Good morning.

The second element this morning from this evidence, Mr. Chairman, is that we are attempting to define our affairs on a commercial basis. I had spent a great deal of my life with the private sector. Coming into this job a couple of years ago, I was very concerned to see just what kind of financial controls and financial incentives existed within this national business.

I recognize those financial disciplines as being of the highest order that I would find in any of our great private sector companies.

Here we have then a community of 240,000 people in different businesses and having to justify itself in terms of its performance on capital employed. That is how I regard our affairs.

I regard our capital employed as something like 700 million pounds, a little plus \$1.4 billion, and our return on that capital on the operating surplus, operating profit before interest, is around about 10 percent.

Now that is the test that we are putting to ourselves through our various businesses.

This may lead me to the third point of introduction because questions perhaps will be more fruitful. But mainly the mixed economy of British Railways has areas which are directly commercial and which have to justify themselves and be competitive.

For instance, our freight business is totally unregulated. In the short visit I had with ConRail, I found that theirs was private business but publicly regulated, while public business in our freight is totally unregulated and has a totally competitive environment. It has to live that way.

There are parts of the business which have to be seen as being run for a public service obligation. This covers parts of our passenger services.

For instance, commuter land is part of this public service obligation. I think it is important that we try our best, as British Rail, to see if we can't tidy up the language with our banker-shareholder, that is the Government, as to how we give value for money in that area. That is our business.

The taxpayer's revenue is coming into us for certain areas which cannot be commercially justified. In recent years we have turned toward what we would like to consider contractual relationships with government.

We are saying that we have a product which can produce 400,000 commuters a day into London, for instance. That product is socially and politically desirable, but it has a price. We will supply that product on contract so that we regard ourselves as on contract to government providing details for the contract annually and ahead of time. That is a true contract.

It is not cosmetic and not a soft option. It is something we are working on now with government for next year.

We live by that contract. In the last 2 years we have met that contract. In fact, we have beaten it, and when we beat it we keep some of the money for ourselves as a normal concern would do.

It has been a help, this concept of a contract, because there is perhaps a real destructive and demoralizing influence in our history where the tendency is to talk about a national business as sloppy. What happens is that this is destructive to the dedication and professionalism of a great service.

What they are doing is producing a product, and that service is available and it is to be bought. If it is done on contract and people meet the contract, they should have pride in what they do.

As I put it last night, Mr. Chairman, you cannot go on running a railway forever through the valley of the shadow of deficit financing. It is destructive and it damages morale and incentives.

The discipline of a contract embraces the whole thing. Subsidy sickens, and contracts quicken. That is our position.

The political relationship with BR over the last couple of years is that of a legally constituted corporation at arm's length, if possible, with the Government.

I am appointed by government and the board members are appointed by government. We work with the Secretary of State for Transport, however, and in reconciling the country's economic planning with our service, there is a banker-shareholder relationship that is the strategy with them.

We are left to run the business. We are left to try and compete and justify the whole set of businesses that logically connect under the title of British Rail.

Now in my view the tension that is inevitable with a banker-shareholder is intensified in the public service because of the political implications and governments that come and go in our country.

I have discovered that in 30 years there have been something like 14 ministers responsible for transport. There have been eight chairmen of British Rail.

What one has to try to do in Britain is try to establish oneself and steady that relationship by producing a new coherence and confidence in it.

That is what I think we are struggling to do at the moment in concepts like the contract and in performing in ways that make it possible to judge us and give us proper incentives as management to do a damn good job and give the taxpayers value for money.

That is the background of this document, Mr. Chairman. Perhaps questions would show its relevance, if at all, to this country.

[Sir Peter Parker's prepared statement follows:]

**SUB-COMMITTEE ON TRANSPORTATION AND COMMERCE
HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
HOUSE OF REPRESENTATIVES**

**STATEMENT OF SIR PETER PARKER
CHAIRMAN, BRITISH RAILWAYS BOARD**

27 SEPTEMBER 1978.

Mr. Chairman and members of the Sub Committee, I am greatly honoured by this opportunity to make a presentation to you. I find the depth of interest currently being shown in the future of railways in the United States to be a particularly stimulating experience, for you are facing many of the problems associated with rapid legislative, institutional and technological change to which we, in Britain, are no strangers.

The British Railways Board is one of the larger of the British nationalised industries — or, as I prefer to call them, national enterprises. Ours is a very large business with a turnover in 1977 of nearly £1,700m (\$3300m) and employing 240 thousand people (one per cent of the total British labour force).

Our main concern is with railways, but we also have other important subsidiaries concerned with shipping, rolling stock manufacture, property management, hotels, hovercraft, containers and international consultancy. The Board is an independent corporation — a separate legal entity — empowered to manage the business within the terms of the relevant statutes.

I and my fellow Board members are not civil servants. We are appointed by, and are responsible to the Secretary of State for Transport, a Member of Parliament appointed by the Prime Minister to be the Minister and Cabinet Member responsible for surface transport. Although he has considerable powers to direct and control the Board, he restricts himself to overall policy matters, leaving responsibility for day to day affairs to the Board. The relationship, which continues to evolve, is a complex one but the aim is clear — to reconcile the Government's legitimate interests in an industry which is basic to the national economy with the Board's need for freedom to manage effectively.

The Secretary of State is responsible for the work of the Department of Transport whose task is to formulate policy on all surface transport matters, including ports but not shipping. All trunk roads, unlike railways, are built and owned by the Department and all matters of road safety, vehicle standards and traffic regulation are their responsibility. They review the Board's major investment decisions and the overall investment programme, and — as I shall mention later — have an important role in railway safety questions.

To clarify my position, and the Board's responsibilities, I have included two appendices to this paper, the first showing a simplified organisation chart and the second listing the Board's key obligations and constraints.

For the record, I am accompanied today by my colleagues: R.B. Reid, K.V. Smith, K.H. Spring, J.F. Thring and C. Bracewell. From the biographical details supplied it will be seen that their wide experience will be available to supplement references in my statement to marketing, planning, engineering and research matters.

To continue my opening remarks, we in Britain have been faced with many of the problems confronting the United States railway industry today although, of course, geographical, operational and other differences have affected our approach towards them. In your country, for instance, there are more opportunities for those long freight hauls favourable to railways, but your main rail passenger markets are limited to certain regional corridors. Only a future Channel Tunnel linking Britain to Europe would encourage through hauls on such a scale. Our compact island is, however, good potential for rail passenger activities. These differences help to explain why freight has increasingly dominated passenger traffic in the United States while the once dominant freight traffic in Britain has been steadily giving way to the passenger business.

However, I think that in looking at transport policies, our common attitudes are more important than our geographical differences. These attitudes can be seen in some of our institutions, particularly in the creation of quasi-judicial bodies like your Interstate Commerce Commission or our now defunct Transport Tribunal which were given the responsibility of interpreting legislation.

Our most distinctive common trait is surely our belief in the value of competition, which we inherit from our trading traditions. For example, Britain and North America are in the unique situation of encouraging competition on parallel routes between aircraft, bus and train in the inter-city passenger market, while Britain's unrestricted competition in the freight market continues to puzzle our European neighbours. Quite foreign to their experience too has been the over-provision of railway capacity on the competing rail networks within Britain and the United States, a historical feature which has given both countries the pains of contraction.

From their beginnings the private railway companies of Britain and the U.S. developed in a generally similar manner, with regulatory constraints on their profit objectives. In Britain the process was interrupted by statutory merger in 1923, public ownership in 1948, and the progressive dismantling of much regulation from 1953. In the U.S. the strength of the freight carrying companies, with hauls of a length never attainable in Britain, postponed the need for major Government involvement in the structural development of railways until the 1960's.

Let me now outline the significant stages in the development of the legislative framework in which British Rail works to-day and then consider some current aspects of our situation which may have particular relevance to circumstances in your country.

The Growth of the Legislative Framework in Britain

British Rail could never be described as the archetypal nationalised railway. Public ownership of railways in Britain arrived only after more than 100 years of private ownership. The early companies developed with no government help, either financially or in the form of land grants. Government was not slow, however, to introduce strict regulation to ensure safety of operation and control monopoly powers.

By the time of the First World War railway fortunes were passing high noon. After the War trucks were beginning to cream off the more profitable traffics and some of the weaker companies faced bankruptcy. The railways had been under government control during the war, and there were voices advocating the benefits of unification which could be achieved under public ownership. After debate a compromise was adopted. Private enterprise would continue but over 120 companies would be merged into four large groups. Care was taken to retain an element of competition between companies as the lingering fear of railway monopoly was still strong in the 1920's. The same fear also resulted in the introduction of a statutory scheme of standard charges calculated to earn the new companies a return on investment of 4 per cent.

In the event, the strength of the road competition had made it unnecessary to maintain competition between the railway companies, which were unable to achieve the anticipated levels of profitability. In 1938 they pressed the Government for relief from all legislative regulation of their charges on the grounds that the railways had long ceased to be monopolistic. The Second World War intervened before the Government's views were known and the railway companies again came under unified control. Many years were to elapse before the railways achieved their regulatory objective.

The post-war Government elected in 1945 considered that the right course did not lie in dismantling the machinery of regulation but rather in the integration of all public transport within one public corporation (i.e. the British Transport Commission). It was argued that the pricing mechanism would then be used to encourage freight and passengers to use the transport mode with the lowest cost, although freedom of choice would be retained. The purchase by the Government of not only the railway but also of fleets of road trucks from their private owners was a secondary consideration to integration itself, although essential to the grand design.

It is necessary to appreciate the circumstances of nationalisation in Britain, because they have shaped its distinctive character, leading to a situation where British Railways have a great deal of independence compared with other nationalised railways. Indeed, British rail to-day has much in common with many large British manufacturing companies in the private sector.

We shall never know whether the great experiment in transport integration begun in 1948 could have proved to be successful. A new Government elected in 1951 had very different ideas. It was committed to the process of de-nationalisation and the substitution of inter-modal competition for the objective of integration. Many of the trucks bought after 1948 were sold back to private buyers, though the railways were in no shape or condition to be put on the market. Instead, the Government de-centralised the railways and based much of the policy making on six Area Boards of Management which were strongly motivated to optimise the efficiency of their geographical areas. Consecutively with this very radical reorganisation came the first stage in the dismantling of the machinery of regulation of railway charges. Freedom in freight charging began with the introduction of maximum charges scales in the mid-1950's and progressively developed until the 1960's, when the railway ceased to have public charges scales (except for Less than Carload traffic) or even the obligations of the common carrier. Another development during the 1950's was the first major infusion of investment funds into railways in Britain for over a quarter of a century. There were certainly many changes to absorb within a very short time.

During the later 1950's financial deficits brought about a succession of detailed investigations into railway affairs. It was beginning to be appreciated that the revitalisation investment which came on stream in the mid-1950's was open to the criticism that the railways were being modernised before their future role had been defined. The outcome was new legislation in 1962 which effectively completed the retreat from integration by separating from the railway the other inland transport activities not dealt with in 1953 and establishing them as new public corporations, which would actively compete with British Railways. Attention was now sharply focussed on the fundamental re-shaping of railway activities so that, by concentrating on those tasks to which a railway was technically and economically suited, there would be no need for subsidy from the Government. As a result of this re-shaping the size of the railway network was reduced, many activities were amended or eliminated, technological research received a new impetus, and the remaining regulations on railway freight charges were abolished.

Since nationalisation railways had lived with unification, centralisation, de-centralisation, opposing policies of integration and competition, financial reconstruction, investment, dis-investment, de-regulation and four structural re-organisations. There had certainly been no lack of action by legislators within the fifteen years of public ownership. Why did railways still have financial problems? There were many reasons, but three stand out.

- there was a legislative inheritance of re-action to old problems, rather than the anticipation of emerging problems.

- railway management was punch drunk with the rapid, sometimes contradictory, legislation which was not always in the right sequential order
- the railway had been considered as a global financial problem when in reality it had robust sectors increasingly submerged by unprofitable sectors which government could not contemplate abandoning.

Hindsight is a very plentiful commodity and my purpose in this short review is not to criticise action which was taken in the light of current circumstances but to explain why, in the second half of the 1960's, both Government and British Railways realised that there had to be a new beginning.

They sat down together in 1966 jointly to review the lessons of recent history and to decide on how to deal with the problem of those unprofitable services which the Government required the Board to provide. The result was incorporated in the Transport Act of 1968 which enshrined the basic principle of distinguishing between the "obligatory" and the "commercial" activities. The obligatory element comprised identified passenger services that were individually given Government support while Inter-City services, along with freight and parcels services, were in the commercial sphere. Whilst this was a great step forward it was soon appreciated that the allocation of costs between services for the purposes of identifying the unprofitable ones meriting support was to some extent unreal and presented a great deal of costly and detailed investigation.

These problems were rationalised in the 1974 Act when it was agreed that the support payment for obligatory services should become a general Government-railway contract payment related to the whole passenger business. There were two very necessary constraints; the first being that the support payment would not be increased in real terms and the second being that British Railways were required to continue all the services broadly in the form they were in at the beginning of 1974.

This gave the Board the incentive to continue to operate the existing network but also to operate it as commercially as possible in order to beat the contract price. It cut out, however, the mass of detailed and rather arbitrary apportionment calculations of joint costs while maintaining the net revenue data essential for management purposes.

The contract arrangements have stood up well and the relationship between the Government and the Board has developed in a very constructive manner. This new certainty in our railway enterprise has only been made possible by the clear understanding of what services the Board is required to provide and the undisputed responsibility to manage its railways without detailed interference. That is where we stand in 1978, and we look forward to its continuation.

I will now deal with some of the aspects of British Rail's activities and will begin by referring to our two major rail businesses.

The British Rail Freight Business

Following from the Transport Act 1968, the freight and parcels businesses are under a remit to be fully commercial services. The Railways Act 1974 made this responsibility more specific, but in the following years the combined effects of the national recession and Government price restraint meant that viability was not immediately achievable. So additional support was needed as a transitional arrangement and a special grant was necessary. Since then, however, the freight and parcels businesses have steadily improved their financial position. This year they are

expected to cover all the costs, including those of track and signalling attributable to the carriage of freight. These infrastructure costs are calculated as the "avoidable" costs (i.e. those costs which would not be incurred if the service were to be discontinued). This means that the total cost of track and signalling on lines used solely for freight is charged to the freight business plus the avoidable costs on jointly used tracks. This is judged to be a fair share, recognising that much of the heavy expense on jointly used track is a direct result of the exacting safety and operating standards laid down for passenger train operations.

There is also one very small element of financial assistance from the Government to users of rail freight services. Customers wishing to install a private siding may have part of the cost refunded by the Department of Transport, although this is not intended as direct aid to rail freight but as an environmental measure to encourage heavy traffic away from overcrowded roads.

Although we expect to be on target and break even in the freight business in 1978 I would not wish to hide our concern about the situation in future years in view of the slow recovery from the national economy recession. Our freight is a volume hungry business and as the average haul is some 70/80 miles, the truck is never far away.

We have researched the market and looked very closely at our cost patterns to determine those traffic flows on which we should concentrate. At the extreme end of the spectrum our analysis shows that we could not compete with the road truck for car-load traffic on distances less than two hundred miles. Indeed, at best such traffic can be only marginally worthwhile even at greater distances within our small island. Our strength lies in carrying bulk traffics — coal, aggregates, oil, steel — in train-load quantities between sidings located in the customers' plants, where volume, regularity of shipments and low terminal costs per train — rather than distance — are the important factors. We have now moved to a situation where 80 per cent of rail freight is in unit trains.

We do however still compete on car-load traffics, but we are concentrating on the Freightliner door to door container system and "Speedlink", a system which conveys siding to siding car-load traffic from our major bulk customers. Both of these services concentrate on the longer distance traffic — and operate only between a limited number of major centres.

British Railways operate a predominantly passenger system with a high standard of timetable discipline. Our trunk freight movements have, therefore, to be programmed with similar precision to avoid conflicts. However, we have multiple tracks over many routes, some parallel routes, and we programme many freight trains for overnight transit. The situation is further helped by the fact that much of the bulk freight movement is of short distance on routes which are not in the Inter-City passenger network. These factors help to counterbalance problems caused by the increasing divergence of freight and passenger speeds.

Overall control of the freight network is through TOPS, the Southern Pacific's computerised car control system — modified and extended for our conditions. Car availability, train marshalling and train loadings have all been greatly improved and these have had a most beneficial effect on our profitability.

The British Rail Passenger Business

The passenger business consists of four sectors, Inter-City, London and South East, services in Passenger Transport Executive (PTE) areas and local services. Their sales revenues in 1977 were:

	£m	\$m
Inter-City	287	560
London & South East	233	454
PTE services	33	64
Local services	42	82
	<hr/> 595	<hr/> 1160

Although in the 1977 results the Inter-City services were included in the contract agreed with the Government, they are in fact buoyant and are giving increasing support to the system as a whole.

In 1977 the volume of rail Inter-City traffic increased by 8% over 1976, despite a continuing fall in real disposable incomes within the country, and the expectation for 1978 is that there will be a similar volume increase over 1977.

Inter-City is an expanding business and we aim to keep up the momentum of expansion in to the future by marketing activities designed to improve the quality of service and fill seats, particularly at off-peak times.

On routes served by 125 mph High Speed Trains in 1977 the rail share of the total passenger market increased substantially. Further High Speed Trains will be introduced progressively until 1982 after which it is planned that the Advanced Passenger Train will be introduced. This train will be capable of speeds of 150 mph on existing track made possible by its sophisticated tilting and bogie suspension. This bears out our belief in the value of investing in technological research and development in order to achieve higher service quality. It will also materially assist us to meet the objective set for us by the Government of ensuring that the costs of providing Inter-City services are covered and that they make a proper contribution towards the costs of infrastructure.

Another important part of the rail passenger business are the services, primarily commuter, operated in London and the South East of England. These are expensive services to operate, both in terms of capital and labour, and the Government's objective is that we should intensify our efforts to reduce costs in every way open to us. At the same time it is accepted that fares will be bound to rise, in real terms, in forthcoming years.

The remainder of the passenger business is made up of services in large metropolitan areas outside London and local services in primarily rural areas. In the seven metropolitan areas there are individual Passenger Transport Executives which, on behalf of Local Government, specify the rail elements in their comprehensive transportation plans. We have contracts with each Executive to provide the specified services.

All the Executives have enthusiastically opted for rail as a major element in their transportation plans. While relations with Executives are fruitful, considerable attention is needed to adjust to differing financial and planning frameworks and to

the procurement of long term improvements in facilities in the face of immediate and pressing cash problems.

In 1977 we managed to beat the contracted price for providing rail passenger services by £27m (\$53m), but we can never relax in what is a very dynamic situation. We know we have a major renewal hurdle in the next ten years on lightly used local services on many of which buses would almost certainly be more economic and, if properly integrated, a form of transport acceptable to the community. Such a move would assist us to continue to beat the contract while putting investment funds into the better used elements of the passenger network.

The Financing of British Rail

It is difficult to make any comparisons between the year by year performances of British Rail under public ownership, since the scope of its activities has varied over the years, and no less than three different methods of support payment have been used by central and local government during the last decade alone.

The following tables show the Consolidated Profit and Loss Account of the Board's activities and the Railways Operating Account for 1976 and 1977.

British Railways Board
Consolidated Profit and Loss Account

Year 1977

Year 1976

£m	£m		£m	£m	£m	£m
1439.7	2807.4	Turnover including support	1677.8	3271.7		
		Operating results				
0.1	0.2	Railways	44.8	87.4		
0.3	0.6	Freightliners Limited share of surplus (49%)	0.3	0.6		
0.4	0.8		45.1	88.0		
0.4	0.8	Rail workshops	0.6	1.2		
<u>2.2</u>	<u>4.3</u>	Ships	6.5	12.7		
—	—	Hovercraft (deficit)	<u>0.6</u>	<u>1.2</u>		
1.0	1.9	Harbours	2.7	5.3		
0.7	1.4	Hotels	1.5	2.9		
<u>6.3</u>	<u>12.3</u>	Non-operational property	<u>7.0</u>	<u>13.6</u>		
6.6	12.9	Total operating surplus	62.8	122.5		
<u>10.8</u>	<u>21.0</u>	Other income	<u>9.7</u>	<u>18.9</u>		
17.4	33.9		72.5	141.4		
<u>3.7</u>	<u>7.2</u>	Corporate expenses	<u>4.1</u>	<u>8.0</u>		
13.7	26.7	Surplus before interest	68.4	133.4		
		Interest				
31.5	61.4	Interest on capital debt to Secretary of State	31.6	61.6		
<u>5.3</u>	<u>10.3</u>	Other	<u>11.4</u>	<u>22.3</u>		
36.8	71.7		43.0	83.9		
<u>23.1</u>	<u>45.0</u>		25.4	49.5		
0.2	0.4	Taxation-Overseas	<u>0.2</u>	<u>0.4</u>		
<u>23.3</u>	<u>45.4</u>		25.2	49.1		
<u>6.6</u>	<u>12.9</u>	Exchange gain/loss	<u>4.5</u>	<u>8.8</u>		
<u>29.9</u>	<u>58.3</u>	Surplus/loss before extraordinary items	<u>29.7</u>	<u>57.9</u>		
92.2	179.8	Extraordinary items	46.0	89.7		
<u>57.0</u>	<u>111.2</u>	Less amounts transferred to Reserves	<u>48.7</u>	<u>95.0</u>		
35.2	68.6		<u>2.7</u>	<u>5.3</u>		
<u>5.3</u>	<u>10.3</u>		<u>27.0</u>	<u>52.6</u>		

British Railways Board
Railways Operating account

Year 1977

Year 1976					
£000s	\$000s		£000s	£000s	\$000s
		Gross income			
		Passenger			
505,072	984,891	Fares and charges	593,419	1,157,167	
319,092	622,229	Support	363,500	708,825	
824,164	1,607,120		956,919	1,865,992	
306,982	598,615	Freight	348,172	678,936	
98,173	191,437	Parcels and Post Office Mail	109,622	213,763	
14,392	28,064	Miscellaneous	15,696	30,607	
1,243,711	2,425,236	Total	1,430,409	2,789,298	
		Expenditure			
560,700	1,093,365	Train services	620,011	1,209,022	
176,360	343,902	Terminals	186,504	363,683	
11,364	22,160	Miscellaneous traffic expenses	13,269	25,875	
297,013	579,175	Track and signalling	348,411	679,401	
210,287	410,060	General expenses	231,359	451,150	
1,255,724	2,448,662	Total	1,399,554	2,729,131	
<u>12,013</u>	<u>23,426</u>	Railways net surplus/loss	30,855	60,167	
12,143	23,679	Operational property (letting)	13,740	26,793	
1,767	3,446	Commercial advertising	2,013	3,925	
601	1,172	Station catering	762	1,486	
<u>2,397</u>	<u>4,674</u>	Train catering	<u>2,617</u>	<u>5,103</u>	
12,114	23,623		13,898	27,101	
101	197	Operating surplus	44,753	87,268	

The Board — and those who work within its many activities — have been greatly encouraged in that we have more than met the financial objectives agreed with the Government against a national background of inflation and industrial recession. The Board's total activities achieved a trading surplus in 1978 of over £68m. (\$133m) and an overall surplus, after meeting interest charges, of £30m. (\$58m). The railway activity itself had an operating surplus of £45m. (\$87m) after the contract payment by the Government for the passenger business.

The contract payments included in the Board's turnover for services run to meet the expressed requirements of government are calculated annually on the basis of the budget produced by the Board as part of its general management control and information system. In addition to these payments there are much smaller payments made under the Regulations of the European Economic Community (EEC) to compensate the railways for any other obligations placed on them by government, or to cover transitional situations such as the one terminated at the end of 1977 in respect of the British Rail freight business.

Reference has already been made to the several different methods of support payment made to British Rail but the basis has been consistent since 1 January 1975. The total support received in the last three years, expressed in 1977 money values has been:

1975	£688m	\$1342m
1976	£563m	\$1098m
1977	£492m	\$ 959m

The principal items included in 1977 were

Rail Passenger Public Service Obligation	£ 364m	\$ 710
Funding of Historic Pension Liabilities	107m	209
Maintenance of Grade Crossings	11m	21
Other	10m	19
	<hr/> 492	<hr/> 959

Although it can be very misleading due to differences in accounting practice and competitive conditions to draw any conclusions from comparisons between the railway systems of different countries, a basic comparison can be made of the work performed by each railway per unit of support received from its Government. In view of British Rail being in such a highly competitive transport cockpit in Europe, I find the following table to be of particular interest:

Support received from governments (1976)

	Passenger kilometres and freight ton kilometres per £ of support	Support as % as Gross Domestic Product
British Rail	101	0.40
Italy	97	0.60
France	84	0.73
Switzerland	69	0.62
Netherlands	62	0.36
West Germany	47	0.82
Austria	42	1.81
Belgium	27	1.41

Government support in Britain for other modes of transport is substantial, and takes different forms.

It will be seen that the elimination of general subsidies and the use of the contractual approach gives British Rail a very clear indication of the action which it must take on the "obligatory" services in a manner which was never possible before it had the task of meeting its contract obligations and running its other activities as a commercial enterprise.

This does not mean that its financial problems are any less. Indeed, it experiences the financial triumphs and anxieties of any great industry judged by financial criteria.

Investment in British Railways

Investment is one of our current problems. As a result of stop-go policies adopted by successive Governments since British railways came into public ownership, railway investment has alternated between feast and famine. Until the mid-1950's investment was insufficient to keep up with the backlog of deferred renewals arising from the war years. Then followed a decade when a high level of investment renewed much of the locomotive and rolling stock fleets. From the mid-1960's there was a further period of famine, and although there has recently been some improvement our present concern arises from the need during the next ten years to replace the fleets built in the late 1950's and early 1960's. We consider that our investment level will have to rise by up to 30% within the next decade if we are to provide reasonably modern facilities for our customers.

I have already referred to the situation in the 1950's and 60's when investment for re-vitalization was followed by the reshaping of the railway, which resulted in some of the investment having less than maximum effect. The reason for this was that we had at that time no comprehensive Business Plans which could take account of the social, industrial and economic changes which were taking place and which were to affect profoundly the operations of the railway and of its competitors. Since then we have taken great care to ensure that all major investment schemes are based on a clearly stated requirement which forms part of a current Business Plan. In building up the Plan, the marketing department details the demand factors and revenue forecasts.

The operating department then decides the volume and type of service which will meet the marketing demand. At the end of the chain the engineers decide the amount and type of equipment required to achieve the general objectives. If the outcome proves to be too expensive, the whole process must be recycled.

Business Plans cover a 5-10 year period and are rolled forward annually. A more detailed 5-10 year investment programme is prepared in conjunction with each Plan and is rolled forward similarly. Individual projects are justified in principle by inclusion in the Plan and its associated investment programme, but are still required to show that they are the best means of achieving the particular objectives concerned and that they produce an acceptable return on the investment.

We are very conscious of the great incentive of being able to demonstrate our confidence in railway investment by generating the maximum cash resources which can be used for investment purposes. In 1977 about a quarter of the Board's investment funding was received through loans, but the bulk was generated internally. We would like to reach the position where investment in those sectors of the railway which are run on a commercial basis would be governed only by the ability of the business to afford it. At present, railway investment is regulated by Government in the interests of an equitable sharing of national resources, and the amount that we receive in the immediate future will depend on the speed of recovery of the national economy and the ranking of our claim among other priorities competing for the same resources.

Regulatory Control over Railway Pricing

The regulatory control of railway freight and passenger prices does not exist on British Rail, apart from the oversight exercised by the Prices Commission which applies to the pricing policies of all industries.

Neither is there any regulatory control over truckers' prices or over the number of vehicles in use. Furthermore, manufacturing industry in Britain has long used its own trucks and is allowed also to carry the traffic of other companies for hire or reward in competition with the professional trucker and British Rail. The result is a highly competitive situation which has compelled British Rail to be highly selective in its freight business.

On the Inter-City passenger services prices are aimed at maximising net revenue and are influenced primarily by market factors. Where passenger services are provided under contract with a Passenger Transport Executive the setting of fares is under local government control.

Procedures for the Abandonment of Services

If British Rail wish to abandon a freight service, the only procedural course is to advise all who may be concerned.

In the case of passenger service abandonment there is, in addition to such public advice, a statutory procedure for objection by users of the service. Any such objection is considered by an Area Transport Users Consultative Committee, appointed by the Secretary of State for Transport from a wide range of local interest groups. The Committee, possibly after a public hearing, then reports to the Secretary of State on the hardship that might be experienced (bearing in mind what other transport facilities will be available) and he, in giving or withholding his consent, pays regard to this report.

This process applies to individual station closures as well as route closures. Abandonment is very often prompted by improved routeing or service enhancement, but there are cases where costs of rehabilitating old structures or devoting scarce funds to reinvestment prompt consideration of closure. We are always ready to postpone closure where a local authority is prepared to finance renewals or cover operating deficits.

Regulatory Control over Railway Safety

Railway safety is an area of regulatory control which British Rail supports and wishes to see continued. The appointment of Inspecting Officers of Railways dates back to 1840. In the last century, a succession of Parliamentary Select Committees and Royal Commissions was set up to examine and report upon the safety of rail travel after public alarm had been aroused by the frequency with which serious railway accidents were occurring. Several Regulation of Railways Acts were passed by Parliament enforcing, among other things, the adoption of the absolute block system of signalling, interlocking of points and signals, and installation of automatic continuous brakes on passenger trains.

There has always been a clear understanding with government regarding responsibility for the safety of railway working. Three principles have established that:-

- (i) The responsibility for the safety of operation of a railway must rest with the railway company.
- (ii) Once a railway has been opened, the railway company is responsible for maintaining it to the standard necessary for safety.
- (iii) The Government cannot be held responsible for the safety of structures designed and built by the railway companies.

These principles hold good to the present day and the Department of Transport Inspectorate, a relatively small body, has functions limited to the inspection and approval of new railway works and the investigation of railway accidents after preliminary enquiries by the railway. During this century the recommendations of the Inspecting Officers following an accident, which are not enforceable, have rarely been rejected. There is a close liaison with the Inspectorate; a joint working party has recently reported on level crossing protection.

It is the view of British Rail that the Inspectorate has made a very significant contribution to the increasing standards of safety of railways in Britain. In the year 1901, for the first time though not the last, not a single passenger lost his life in a train accident. Over the last 15 years great changes have taken place; steam has disappeared, continuously welded rail has replaced jointed track on the most important routes, and modern power signal boxes controlling large areas on the track circuit block system, with multiple aspect colour light signals, have replaced closely spaced signal boxes with semaphore signals.

In seven years during this century no passenger was killed in train accidents. In a further six years, only one passenger was killed. For two consecutive years for the first time on record, (1976 and 1977) no passengers were killed. Unfortunately this record was broken by a tragic accident on 6 July, 1978, when twelve passengers were asphyxiated in a sleeping car train fire. The Inspecting Officer's report is awaited.

All significant train accidents are reported to the Inspectorate and statistics are included in the Chief Inspecting Officer's Annual Report. The trend, between the wars and from 1946 to 1964, was an improving one, stabilising at a figure just below one accident per million train miles. From 1964 to 1969, however, the accident rate rose rapidly as a result of a jump in the number of freight train derailments, from under 200 in 1963 to 400 in 1969. The underlying cause was the basic incompatibility of the conventional short-wheelbased two-axle wagon with modern forms of traction and operating procedures. The rising trend was reversed after a major effort by British Rail, and the accident rate is now down again to about one accident per million train miles.

Movement of dangerous goods by rail is a comparatively safe method of transport in Britain, but constant efforts have to be made to keep this record. A very serious fire was caused in 1973 in a private petroleum depot at Langley, west of London, by the irregular movement of a train which was still coupled to discharge pipes. This caused us to review all operating procedures, including terminal procedures, with the Institute of Petroleum and the Chemical Industries Association.

The U.K. Hazard Identification System, which is voluntary for road vehicles, was made mandatory by BR for tank cars carrying dangerous goods by rail and improvements continue to be made in the design and construction of tank cars.

Investigations are currently being made into the likelihood of fire-engulfment of rail tank wagons, although there has never yet been the type of incident which occurred at Waverly in the U.S. involving eruption of a liquid petroleum gas (L.P.G.) tank.

Conveyance of petroleum and chemicals by British Railways in 1977 totalled 44 and 35 million tonne-miles respectively, of which 51 million was classed as dangerous. There has never yet been a breaching of a liquefied petroleum gas or chloride tank on BR, but in 1977 there were three derailments involving L.P.G. tanks, one on a main line the other two in sidings. This year, to August there has been one derailment of an L.P.G. tank and one of a chlorine tank. There have been no deaths or injuries.

Labour Relations and Productivity

The 640,000 people employed at the time of nationalisation in 1948 have been reduced to 240,000 by the end of 1977. That is what thirty years of change has meant. While these figures disguise some of the organisational changes which have taken place in the intervening thirty years, it would be reasonable to speak of a manpower reduction of the order of 60% over this period, achieved, in the main, by retirements and turnover coupled with some redistribution of manpower and training.

This is perhaps the point in my evidence to you — and perhaps on reflection I have introduced the topic rather later than I should — to pay tribute to the loyalty, skills and good sense of the men and women who throughout the turmoil that we have gone through have continued to serve our great industry so well.

Employment in the rail business itself numbered 178,000 at the end of 1977, the other 62,000 being employed in the British Railways Board's other subsidiary businesses — shipping, hovercraft, rolling stock manufacturing, property — and corporate services.

The rate of manpower reduction in the railway activity has not been uniform in the years since nationalisation. Taking 1948 as the base year, the manpower reduction up to 1960 was 18% and there was then a fall of 40% in the next ten years. Since 1970, the labour force reductions have been slower, but we have not yet exhausted the potential. These reductions are attributable to three main areas of change — reshaping of the system, new technology and productivity bargaining. All three were particularly prominent in the 1960's, a decade which saw the rail network cut by nearly one third as well as the transition from steam to diesel, mechanisation of track maintenance and the introduction of major resignalling schemes.

The combined effect of such changes is that labour productivity, measured in terms of freight tonne miles/passenger miles per employee, has almost doubled since 1948 while at the same time the average number of hours worked per employee has been reduced.

Productivity agreements in the 1960's took the form of work study based performance/pay bonuses mainly in the engineering departments. In the late 60's overall agreements were made which greatly simplified pay and grade structures and, in so doing, improved the versatility of the labour force. Current productivity negotiations are centring upon an industry-wide business performance scheme with 'dividends' linked to an index of productivity performance measured in terms of passenger and tonne miles per employee hour.

In earnings, railway staff have more than held their own throughout the last two decades relative to employees in industry as a whole.

The role of the unions is inextricably bound up with this general picture of a contracting but relatively better paid labour force. Comprehensive consultation procedures have been of paramount importance in ensuring close co-operation between management, trade unions and employees at all organisation levels over the elimination of thousands of jobs. It is doubtful whether such large-scale reductions could have been achieved without careful manpower planning involving the strict control of recruitment and wastage to minimise redundancy. It was, of course, helped in the 1960's by the prevalence of full employment.

Between 1966 and 1975 the number of days lost per worker in our industry was only a quarter the rate of all industries and only one sixth of that in manufacturing industry; this was during a period when the labour force declined by over 25%. While the odd dispute has reached Government level, the overwhelming majority of collective bargaining issues have been resolved through adherence to long-established negotiating procedures. Over 1,500 claims have been successfully resolved at industry level since our present negotiating procedures were introduced in 1956.

The Board negotiates with fifteen trade unions, but about 80% of all employees are represented by three unions: the Associated Society of Locomotive Engineers and Firemen, a craft union with 25,000 members; the Transport Salaried Staffs' Association, a white collar union with 58,000 members; and the National Union of Railwaymen, a general union with 125,000 members.

Industrial relations in the 1970's have been characterised by progress by management and trade unions towards a unified approach to the future development of the railway industry although inter-union rivalries continue to dominate newspaper headlines. While the N.U.R. seeks movement towards a single union for the industry, the other two unions fight to preserve their right to represent separately footplate employees and white collar employees. For its part, the Board has adopted a strategy of negotiating on general issues with all three unions together and of working towards harmonising conditions of service for all employees.

Throughout their history, rail unions have been prominent in shaping the development of industrial relations in Britain along the lines of voluntary collective bargaining; that is bargaining without legal regulation. The only time legislation similar to the U.S. Taft-Hartley Act was tried in the U.K. (under the Industrial Relations Act of 1971) it aroused suspicion among trade unionists and it was the rail unions which were directly involved in the revolt against it. The 21 day cooling-off provision in the Act was invoked for the first time over a rail dispute and the rail unions refused to defend their action in the Industrial Relations Court which then imposed a secret ballot among railwaymen. This merely served to strengthen the unions' claim for a pay increase and neither the cooling-off period nor the secret ballot were invoked again.

The future of industrial relations, not only on the railways but in the country as a whole is currently being shaped by employment legislation introduced by the Government since 1974 to promote the development of voluntary collective bargaining and industrial democracy and to strengthen job property rights.

Developments such as these are setting the scene for industrial relations in the 1980's but it looks as if that decade will continue to be dominated by measures to combat the twin problems of inflation and unemployment.

Technological Development

A key element in the progress of British Railways has been the standardisation of railway technology and a steady and consistent improvement of that technology by vigorous research effort inspired mainly by marketing requirements. For example, the High Speed Train (HST) and the Advanced Passenger Train (APT) programmes derive from the aim to compete effectively with air services and the private car; track technology stems from the need for high productivity, higher speeds and axle loads. Similarly, the marketing objectives in the freight business have led to the freightliner network of containerised traffic. In every case the technology has been tailored to a clearly quantified commercial requirement.

British Railways has one of the largest railway research and development establishments in the western world. Its task is to generate technological innovations and provide technical and scientific advice and information to help formulating, developing and undertaking the activities of all the Board's businesses. The programme of work covers the whole spectrum of timescales from service activities on a day-to-day basis to the evaluation of strategic options for transport on a ten to twenty year time horizon.

Some of its strength lies in the inter-disciplinary basis of its organisation. An example which illustrates this approach is the work which has been done to evaluate the trade-offs between track and vehicle suspension qualities.

The majority of the laboratory facilities and all the 900 staff — approximately half of these are fully qualified engineers or scientists — are located at the Railway Technical Centre at Derby. This is particularly beneficial in ensuring that close liaison is maintained with the mechanical and electrical design organisation, and with the headquarters of the Board's rolling stock manufacturing subsidiary which are also located at Derby.

Part of the work of the Research and Development Division is carried out for private industry and for railway administrations in other countries.

Significant improvements have been made in British track technology over the last twenty years to enable maximum speeds to be raised from around 80 m.p.h. to present general speeds of 100 m.p.h. Speeds are now being pushed up to 125 m.p.h. as the High Speed Train displaces the older locomotive hauled trains. At the same time freight speeds and axle loads have been increasing whilst major reductions in the numbers of staff employed on the maintenance and renewal of track have been made. Single track mileage of running lines has been reduced by about 40% — partly as a result of the closures of little used lines but also by simplification of the remaining routes — and manpower employed has been reduced by 60%. The reduction has been made possible by

- the introduction of better man management methods and planning systems
- the introduction of continuous welded rail on concrete sleepers as existing jointed track became due for renewal, coupled with the provision for the good depth of ballast
- mechanising as much of the maintenance as possible using on-track tamping and lining machines
- the use of an automated track geometry monitoring system to relate maintenance history to track condition

In line with other European practice renewal of track is carried out by renewing all the components at one time rather than by piecemeal methods. Ballast cleaners, track laying machines and tampers are used and the track is pre-fabricated to keep on-site operations as short as possible. Track possessions for renewals and temporary speed restrictions are built into the timetables.

Signalling technology has also made great strides since the 1950's. The need to renew life expired signal installations on a massive scale over the entire system required an enormous capital investment. It provided an opportunity for replacing labour with capital (signalmen were reduced in number from 16,400 to 9,600 between 1968 and 1977); for reducing track mileage by enabling more intensive use of the remaining track; and for improving safety and reliability.

Under the National Signalling Plan all but the least significant routes have been programmed for a complete modernisation of signalling. Instead of a signal box in every section the new central power signalboxes — with miniaturised display panels and advanced telecommunications — control traffic over a widespread and complex area. On the track are remote-controlled power switches, track circuits, automatic warning system magnets giving driving cab indications, multiple aspect signals and route indicators.

British Railways' own engineers design most of the rolling stock and it is built by British Rail Engineering Ltd. — another wholly owned subsidiary of the Board. There is thus a close link between design, construction, maintenance and operation.

Driven by the realisation that average train speeds must be at least 50% higher than the 70 m.p.h. achievable on motorways, our engineers have now made British Railways the only railway in the world which has a 125 m.p.h. train proved in revenue-earning service which can run on non-electrified lines. All being well, about 110 High Speed Trains will be built by 1981 when production will switch to APT, the Advanced Passenger Train, a tilting body design derived from wheel/rail dynamics studies, aimed at getting even higher speeds out of existing infrastructure rather than building completely new routes. APT is the product of extensive research and development effort carried out by British Railways scientists in close collaboration with their engineering colleagues.

The cost of the overhead line equipment and provision of electrical clearance on electrification projects forms a significant part of the total investment and therefore a considerable effort has been devoted to achieve the maximum economy in the design of the British Railways Mark III range of overhead line equipment. This has been achieved by developing assemblies which are simple to install and maintain, and comprise a minimum range of components made of relatively inexpensive materials. Cost and time of installation have also been reduced by using effective planning techniques and cost monitoring.

The modernisation of Britain's premier trunk routes commenced in the late 1950's. The first to be tackled was the North-Western route from London to Glasgow along Britain's most densely populated corridor. At that time haulage over the 400 mile route was by steam, the signalling was mainly of an antiquated manual type with cabins at every section, the track was in 60 feet sections and of a design which had hardly been changed this century. Maximum speeds were in the 70 to 80 m.p.h. range and the overall journey time was 8 hours.

The aim was to upgrade the track and signalling for speeds up to 100 m.p.h. using electric traction to achieve an eventual journey time of five hours. In the process a great deal of surplus track capacity was removed, junctions were remodelled and greatly simplified, new maintenance installations were built and many bridges and stations rebuilt.

The initial stage — about halfway — linking Manchester, Liverpool and Birmingham to London in an electrified system was completed in 1966, and there followed a period of 4 years of Government indecision before the second half of the modernisation was started. The first five-hour electric trains to Glasgow did not run until 1974. (The aim is for an eventual journey time of 4 hours when the full APT system is working.)

Over the last 10 years other principal routes have been upgraded, resignalled and rationalised to take 100 m.p.h. passenger trains and many route miles are now capable of taking the 125 m.p.h. HST. The planning sequence and techniques, and major project control systems, are now well established, based firmly on a thorough understanding of the railway as a total integrated system and the need to keep that system fully and reliably operational whilst it is being revitalised.

Planning for such projects starts with the marketing specification — derived through a great deal of research and careful judgement — followed by the first notional but very detailed timetable. An iterative process involving rolling stock, signalling, track and structure engineers then follows from which is derived the case for the investment decision. Only then, when the optimum overall system design has been decided, can the engineers get down to detailed design and eventually to implementation planning with their operations colleagues. Speed restrictions, track possessions and temporary changes in working are planned many months, if not years, ahead. Commissioning dates for new signalling and other installations are known literally years ahead. Rolling stock procurement, staff consultation, training programmes and a whole host of detailed interlocking plans must be worked out.

Some Conclusions

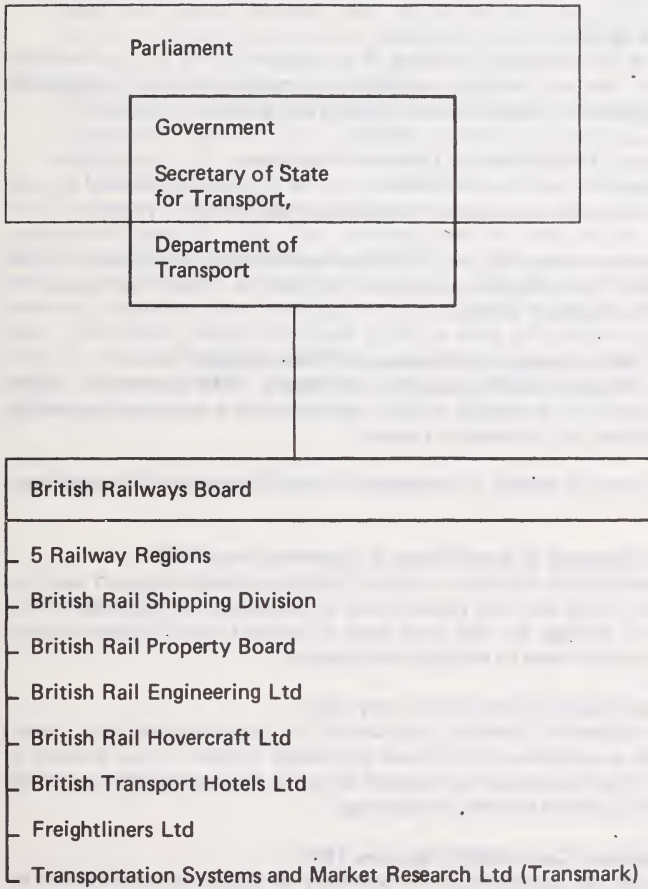
Railways in Britain have had thirty years' experience of acute change since moving from the private into the public sector. They have seen many false dawns appear but have gained experience of great value, not only of changing forms of partnership with Government, but also within a whole new range of regulatory, institutional, marketing and technological developments. As the transport environment has been designed to be highly competitive, railway and government have had to give

particular attention to the methods of injecting commercial incentives into a publicly owned enterprise. These incentives could so easily be an early casualty where government funding is involved.

I would like the opportunity to put before you seven points out of the many elements which, from our experience, are relative to the success of a railway undertaking in the mixed situation of obligatory and optional activities in which it finds itself to-day.

1. If railways are to be revitalised their role must first be redefined within the framework of present day competition and their management presented with a new set of challenges and opportunities. It has not been easy in Britain but we think that we have responded successfully to 20th century competition.
2. Our railways in Britain look very different to-day from what they did when each railway company competed with each other rather than with the car, the truck, the bus and the aeroplane. The networks that had been built up had to be vigorously pruned and reshaped to meet business plans aimed at effective competition with these other modes. Our experience has been that a lot of money can be wasted on technology if there is no sound business plan as a starting point.
3. Revitalisation of a railway industry — or any major industry — requires money, time and patience. In Britain much of the capital needed has had to be provided by the taxpayer and we have learned — painfully at times — a great deal about how to manage the relationship between Government and the industry so as to ensure that the money is spent wisely.
4. If a railway is required by Government for its own good reasons to provide unprofitable services it should be subject to a definitive contractual arrangement. The railway can then choose the extent to which it operates other services according to commercial criteria. It thereby has an incentive in each sector and should be left to get on with its job free of detailed interference.
5. The dismantling of the machinery of transport regulation over charges and conditions in Britain has had a most stimulating effect. There is a sharper edge to competition, a bureaucratic system has given way to a marketing thrust that could never have flourished in a regulatory situation and a new impetus has been given to research and development. Regulation is no longer an alibi for sub-standard financial performance.
6. We are now sure in Britain that there is a vital role for railways in a free-enterprise society. The future of the steel wheel on the steel rail is certain because it is such a highly cost effective transport mode for bulk traffic flows — both freight and passenger — and because it offers great potential advantages in its effect on the environment and its use of energy resources.
7. In particular we feel there is a bright and commercially viable future for high speed passenger services between the larger centres of population where the railways can compete vigorously in terms of journey time and comfort. But success comes only through careful business appraisal and long-term development of track, signalling and vehicle technology, coupled with dynamic marketing.

British Railways Board
Outline organisation chart



THE BOARD'S OBLIGATIONS AND CONSTRAINTS

British Rail's Obligations did not change in 1977, but new constraints were imposed. The obligations derive broadly from the following sources

Transport Act 1962

"It shall be the duty of the Railways Board. . .to provide railway services in Great Britain. . .and to provide such other services and facilities as appear to the Board to be expedient, and to have due regard. . .to efficiency, economy and safety of operation."

Transport Act 1968

"to secure that the combined revenues of the authority and of its subsidiaries taken together are not less than sufficient to meet their combined charges properly chargeable to revenue account, taking one year with another."

EEC Regulation 1191/69 Section 1 General Provisions

"...such obligations may be maintained in so far as they are essential in order to ensure the provision of adequate transport services" (Article 1 para 2).

Financial burdens devolving on transport undertakings by reason of the maintaining of the obligations referred in para 2...shall be subject to compensation" (Article 1 para 4).

Railways Act 1974 Direction by Secretary of State 19.12.74

"the British Railways Board shall from 1 January 1975 operate its railway passenger system so as to provide a public service which is comparable generally with that provided by the Board at present."

These obligations must be related to subsequent financial constraints imposed upon the Board

Statement by Secretary of State House of Commons June 1975

"I have set the Board a short-term target of limiting passenger support payment for 1976 to no more than the present level in real-terms. For the longer term I propose to set ceilings for the total level of support and borrowing within which the Board will have to manage the railways."

The Attack on Inflation (Cmnd 6151) July 1975

"The present system of planning and control of public expenditure. . .needs reinforcing in appropriate programmes by placing a limit on the amount of money which the Government is prepared to pay in the year ahead towards the purchase of the planned volume of resources."

Public Expenditure (Cmnd 6393) February 1976

"consistent with the target which the Secretary of State has set the Board for 1976 of containing passenger grant requirement within its 1975 level in real terms it is now assumed that the grant will not be increased in real terms in subsequent years."

Transport Policy White Paper (Cmnd 6836) June 1977

"No one can now say what provision for expenditure on transport the economic conditions of the country will make possible in the 1980s, but the Government hopes that the developing prospects will justify the case for some increase in railway investment as the plans for public expenditure are rolled forward."

"A reduction of £20m on revenue support to the passenger railway is expected by the end of the decade."

"The Government must now set the Board two financial objectives. The first is to contain, and then reduce, subsidy to the revenue account for the operation of passenger services. The second objective is to eliminate any continuing requirement beyond this year for support to the other railway businesses. The freight and parcels business must, as the Railways Act 1974 intended, cover all the costs, including track costs, specifically attributable to carriage of freight."

Public Expenditure (Cmnd 7049) January 1978

"The level of support for the passenger services to meet the public service obligation is reduced from 1979/80 onwards in accordance with the policy announced in the transport White Paper."

Since 1 January 1975 the Board considers it has provided a public passenger service comparable generally with that provided at the date of the Direction by the Secretary of State on 19 December 1974. This will become more difficult in future years as replacement requirements increase. The Government has taken steps towards recognising the financing problems posed by replacement requirements (para. 220 Cmnd' 6836) but there is still a large difference between the current charge to revenue account and the current cost of assets used. Unless this gap is bridged current financial constraints could preclude the Board from meeting its obligations.

Mr. ROONEY. Thank you very much, Sir Peter. I commend you for giving the committee a copy of your statement a week before this meeting. The committee rules provide that the person testifying presents his testimony 48 hours beforehand.

It has been the experience of this committee to receive it the moment the person delivers it. So we commend you for that.

The bells have rung and there is a vote on. We will take a 10-minute intermission. Make yourselves at home.

Sir PETER PARKER. We are used to competition, Mr. Rooney.
[Brief recess.]

Mr. ROONEY. Thank you for that very interesting statement, Sir Peter. I was very impressed. You don't like to be called nationalized but when were you nationalized?

Sir PETER PARKER. Thirty years ago. We don't like to be pickled in the traumas of the past.

Mr. ROONEY. How many are on your board?

Sir PETER PARKER. We have a statutory number of 16 available to us and at the moment it is 15 because we had a recent death. We have had 14 over the last 2 years. The board is a unified board, not that there is a tier structure that one senses, is custom over here.

We had breakfast with Amtrak this morning. They had us for breakfast.

Mr. ROONEY. Who paid?

Sir PETER PARKER. I have had to sing for my supper sometimes, but I never had such a nice breakfast.

In their sense there is a chief executive and the rest of the team are not executive board members. Our board has part-time and full-time members of the board mixed up. We have executive directors and nonexecutive directors all on the same board.

They are all appointed by the Secretary of State. They are appointed for fixed time limits. For instance, my contract with the Government is for 5 years. I would imagine that we shall probably be filling up the extra places in the course of the next year. I think 14 is a handy number.

Mr. ROONEY. What is your annual budget?

Sir PETER PARKER. We have revenue budgets of something like \$3.3 billion for the whole business. We work the budget on an annual basis but within a 5-year corporate plan that rolls forward and then that is set within a 5- and 10-year framework which we keep under review with the Government.

Mr. ROONEY. And last year, am I correct in quoting from your statement that you made a net profit of 10 percent?

Sir PETER PARKER. Yes; that would be the return on the total capital employed of \$1.4 billion. It is not good enough, but it was quite a reasonable year.

Mr. ROONEY. Do you have any stock? Our average railroad last year returned less than 1 percent.

Sir PETER PARKER. I think again I would have to draw your attention to the various sectors of the business that we have. I find it tremendously helpful not to look upon us as a great huge business like a great bureaucracy, but as a whole set of businesses with their own targets and management structures.

I am not a believer in organizational dogma, but I think when we can organize into smaller groups it is not a bad thing. We try to chunk

out the business to the freight business and the passenger business, but even our passenger business breaks into different parts.

For instance, the intercity business which is one of our most promising sectors of the passenger business, is doing extremely well. Volume went up by 8 percent last year.

To take another side of the business, the commuter business, there is a business that will never pay.

So if one looks at the whole set of businesses, one wants to judge them by their own profit centered targets. That, of course, goes for our shipping group, property group, hotel group, and all of these.

MR. ROONEY. How do the hotels tie in with railroads?

SIR PETER PARKER. Well, they are a great pleasure to stay in. When are you next coming across?

MR. ROONEY. I don't want to stay in a British hotel again. I stayed in the Cornhoff for 10 days, and when I checked out I thought that I owned half of it. Who owns that?

SIR PETER PARKER. It is not ours, I hasten to say.

MR. ROONEY. It is an incredible hotel, just beautiful, but \$5 for a cup of soup?

SIR PETER PARKER. I have always found it cheaper to eat money there.

The hotel group is another of our great residual elements of history. We have something like 29 hotels and they vary in quality. If you are going to London, we would try to tempt you to stay at the Charing Cross Hotel. There are other hotels like the Paddington Hotel in London, so you have this kind of facility.

Another extreme, of course, is the jewel in the crown like the Gleneagles. It is where the Commonwealth prime ministers meet and one of the greatest hotels possibly in the world. There is Turnberry, where they had the golf championship, and we had a win by the great American champion again.

There is a great panorama of hotels up and down the country.

MR. ROONEY. Let the record show that that trip to London and the stay at the Cornhoff was a personal visit.

In your statement, Sir Peter, you have emphasized the commercial nature of British Rail. How do you resolve the legitimate differences between leading members of Parliament and the management of specific programs or projects or services of British Rail?

Don't the members of Parliament who must vote on funds for your company often have strong views regarding the policies in which you vary from item to item with respect to rail policy?

SIR PETER PARKER. Absolutely, Mr. Chairman. I think it is worth explaining that as a corporation our responsibilities are to the Secretary of State for Transport. He is a member of the Cabinet and therefore a member of the ruling party of the day.

We frequently negotiate with them. That is the prime banker-shareholder relationship.

Of course, we have to live in a political environment. As I was saying last night, it is not just a goldfish bowl, it is a piranha bowl. So there are complications because railways are about as political an industry as any I have ever known.

They run through marginal constituencies up and down the country. But we negotiate with the Secretary of State, and it is with him that the deals are struck.

Of course, in many areas of the country we are deeply involved with local government and local politics because there are passenger transport executives in the major metropolitan areas. They in fact contract with us for any rail solutions they opt for.

So we have the straightforward banker-shareholder relationship which is direct between the corporation and the Secretary of State. Then, of course, we have to live as a commercial enterprise with the political context up and down the country.

It is organized through passenger transport executives in the main urban areas, but there are, of course, countries in the country, Wales and Scotland. There we have regional advisory boards which are set up to help us explain ourselves in those regions.

But they are really almost the public affairs of a normal enterprise activity engaged all over the country. The political focus is very simple and direct in negotiations with the Secretary of State and his department.

Mr. ROONEY. In the United States we are pursuing a policy of substituting coal for oil and natural gas. Is the United Kingdom pursuing such a policy, and if so, do you see any role for railway electrification in this process?

Sir PETER PARKER. Indeed. We have at the moment a joint study between the board and the Department of Transport to examine the possibilities for accelerating electrification programs throughout our network.

At the moment only 20 percent of our network is electrified, although 40 percent of our mileage is on electric track. We feel that there are enormous possibilities, and we have under review at this moment a proposal to consider extending electrification to 3,000 more miles of our 11,000-mile network by the year 2000.

It is a massive program that we have in front of us. Of course, that is not easily justified on short-term commercial grounds. Electrification programs are very front-end loaded for capital. These proposals have to be regarded in the terms you have described them, Mr. Chairman, as major political decisions for oil substituting strategies.

It is under that general influence of importance to the country that I suspect we should give more and more support for electrification programs.

Although we have struck it rich in the North Sea, that is a finite source, and we have to be thinking really of beyond the year 2000. We are at the moment giving that a very high priority indeed in our affairs. I would ask my technical colleague, the head of research, to comment on that.

Dr. SPRING. Mr. Chairman, I think I would agree with what our chairman said. The second point is that in order to electrify a major part of main line network over a 30-year period, that is the time period we are talking about, we will need the rate of investment which we can tolerate in the financial sense. We will need the rate of disruption of traffic, while we are actually electrifying the lines, which is tolerable in the operating sense.

Therefore it seems to us that the right policy, if you take a sufficiently long time, is to electrify the major part of the network and in the kind of time scale we think that the oil supply will last.

So oil substitution strategy is based on that kind of assessment.

Sir PETER PARKER. If I may comment further, Mr. Chairman, I would take the electrification theme that you have raised as one of the features which is rally giving us great heart in railroads in Britain. It is a sign that people are thinking long about railway again.

The real problem with the political relationship with the railways is the short-term aspects of decisionmaking which is natural in a political sense.

In our country 5 years is an eternity for a politician, 5 years of government. But 5 years is short-term planning for us, and one is very comforted to see some of these longer term themes being raised. It is part of the new coherence, we feel, on a bipartisan basis.

Dr. SPRING. I might add that in looking at the tunnel under the English Channel the main motivation is clearly a commercial one of having longer hauls of freight. But nevertheless in terms of, say, passenger traffic between London and Paris or London and Brussels, the oil substitution is such that for every person we can put through the channel tunnel the nation will save about 7 gallons of aviation fuels.

In the long term that is in our strategy quite an important figure, so the commercial and strategic interest come in there.

Mr. ROONEY. Before I yield to the gentleman from Illinois, I notice that the chairman of our full committee, Mr. Staggers, has arrived.

Chairman STAGGERS. Thank you, Mr. Rooney. I want to congratulate you as a subcommittee chairman for inviting the members of the British Railways Board to come and be with us to give us the benefit of their views.

I want to thank you for coming, I think this might be very, very important to the members of this committee.

I don't know if the country is aware that you have invited these people, but they should know. We want to express our appreciation to this group. Mr. Parker, as chairman, I just want to say thank you very much.

I am just curious. I understood that your railroad passenger service had been declining and now it is beginning to pick up. What do you attribute this to?

Sir PETER PARKER. If we take a short-term basis of trends, you are absolutely right, sir. We did suffer very badly in the critical years 1974 and 1975 particularly. I will ask my marketing colleague to comment in a moment.

At that time of course we had to survive a high rate of inflation, and we got to the 25 and 27 percent mark. Also a new government came in that reversed the policies of the previous government which had been to insist on our prices being kept down.

The new government came in and reversed that and said we must go for our commercial basis. This meant something like five rate increases for the passengers over about 2 years. This hampered the confidence of the customer who was meanwhile suffering from inflation in so many different ways.

So our policy in the last 2 years has been to establish the confidence of the customer. We have only made two increases in 2 years, and we make them in January when the individual can budget. That has resulted in a new kind of confidence.

Traffic volume has gone up by 3 percent last year, and this year it is going up at the same rate so far. I don't know who is minding the shop while Bobby is away but I am confident they will be about it.

The other aspect is that we are beginning to see the obvious fruits of a good product. Now many parts of our network, I make it plain, are suffering from the crumbling edge of quality because of old stock, particularly perhaps in some of the commuter services.

But where we have regenerated fleets for the intercities themselves, there has been really a most encouraging reaction. Intercity business went up 8 percent in volume last year.

That is where we got the high-speed train going, that is the 125 mile-an-hour train. I don't know if you have been on that but it is the winning way to go. It is quiet and air-conditioned and very attractive.

That ran out to the West. It is the GWR, God's wonderful rail. That trade went up by 27 percent last year. Now we have it going up the east coast this year, and we are building a new fleet to come down from the Northeast to the Southwest so we can have a high-speed network covering the whole of the country in the early 1980's.

I think the importance of this is that the railroads need the backing, long term, the longest strategic backing. We need to be allowed to define our needs very carefully in marketing terms. Then the technology can be directed and careful long term strategic marketing needs defined. Then you can come up with a product and the customer is there. It is a civilized, safe way to go. That is the plan that we are struggling for.

Mr. REID. If I could just reinforce what the chairman has said, we must use the technique of producing a commercial and attractive product that satisfies the consumer. We are already reaping the benefit of that policy. Associated with this is a very careful policy on fare levels, and a very careful analysis of the market sectors that are available and could be attracted to our services. The pricing policy must be one that enables us to pick up those different markets.

We are being selective in the fares we offer to different groups of people, for instance students and leisured people who can travel during the day offpeak. We have got a number of specific bargains aimed at those types of people.

Almost half of our revenue is now coming from what you might call substandard or special fares. We think the art of making a railway viable is to get the balance between offpeak, substandard fares and your full fares right, then exploit the situation to the maximum extent possible.

I think that at the heart of the matter is identifying the technical and commercial specification correctly, then applying the right fare policy. This is probably the secret of the success we have enjoyed in the last 2 or 3 years.

Chairman STAGGERS. I am hopeful that all of the Amtrak management is here to listen to this. Maybe we can do a little better in America.

I would just like to say that I have one very good friend in England, and I don't know whether you know him or not, George Wigg. He is with Parliament, and I believe he is in the House of Lords.

Sir PETER PARKER. That is Lord Wigg, yes.

Chairman STAGGERS. I used to be with him quite a lot and corresponded with him for many years. I was very close to him. If you see him, would you give him my regards?

Thank you very much for coming, and I want to congratulate you again, Mr. Chairman, for bringing these distinguished gentlemen here from England to give us the benefit of their experiences.

Mr. ROONEY. The gentleman from Illinois, Mr. Madigan, is recognized.

Mr. MADIGAN. Sir Peter, when we speak of British Rail making a profit, isn't it true that British Railways makes a profit on some of its services and not on other parts of its services and that the two things are divided?

In fact, you can make a determination that you are not going to continue service on a line and present that to the Parliament. Then if they want that service continued, it is their responsibility to fund it under some set of circumstances.

Sir PETER PARKER. Thank you, Mr. Madigan. Yes, it helps to clear one's mind on such a question.

When we are talking about making a profit, I am talking about an operating profit, that is before interest. I talk about that also after receiving Government payments for the contracted services that they want.

This is the basis of this idea, the concept of the contract. We have a product and they want it. We get a contract. The Government payment is in there, and it is against that total business that we ended up declaring an operating surplus in 1977.

Now, if one looks at that for a moment, and I will narrow it down to your specific point, one has to see too that we are in as much of a muddle in Britain as possibly parts of the rest of the world are in about inflation accounting. That is a really hot issue.

In declaring this operating profit we are working on historical cost depreciation. With that qualification we have this operating profit.

Now moving on to your special point, there are parts of our business where mainly we feel that it is almost impossible to ever make a profit. A commuter service, it seems to me at least in the foreseeable future, is not going to make a profit. We bring 400,000 people in a day and take them home at night in London.

That is an immensely intensive use of assets for 4 hours a day. While we can probably use a marketing approach to try to fill up the assets in the middle of the day, we are a long way from loading those assets that can cope with those surges adequately, for the rest of the day.

It is therefore very important for us to be saying to our banker-shareholder that we are not going to be making money in that sector. Therefore we feel if they want us to maintain those services, let us contract with them for those services.

At the moment our contract is generalized but I believe in the next few years we shall be able to refine the concept so that we can isolate more adequately those parts of the business like the commuter business where we can say, "All right, if you want the railway solution, this is what you will have to pay for it."

I think you are absolutely right that in the mixed economy of our business there are bits of it which are commercial, and bits of it for which we need taxpayer's money and the Government pays for it. But that is what I call the contract.

Mr. MADIGAN. Actually, a decision is made or has been made at some point by British Rail to either continue the service or discontinue it. Then you present that option to the government and say, "If you want this service continued, then you must contract for it." Is that correct?

Sir PETER PARKER. Yes. I think both parties are now saying that the present network of 11,000 miles roughly is about right. That is what we need in the way of rail lines to keep our modern industrial community going.

If we wanted to back out of any particular line, we have certain procedures of consultation to go through. Perhaps Bob Reid would explain that. Overall it seems that both parties are satisfied that the roughly 11,000 mile network is right and that that is what we ought to make work.

Mr. MADIGAN. We have, of course, in the United States the problem of inflation accounting as well as you. In trying to judge what our passenger service is doing in this country, we have some more basic or more simple problems with accounting.

It is difficult for us to judge what expenses are properly associated with the operation of the passenger train and what are not. For example, how much of the central office expense and how much of the advertising budget, and how much of the computer reservations system is properly assigned to each train.

Presumably you must go through some accounting in order to establish a basis for the contract that you have with the Government. I wonder if someone could discuss that.

Sir PETER PARKER. Thank you very much. We share with you the the hell and riddle of joint allocation costs.

The joint costs of a railway, freight and passenger, it seems to me are the riddle of the railways of the world. No one has found a totally satisfactory way of isolating those costs.

We have started a procedure which attempts to isolate the costs on od avoidable cost basis. If you take the freight business, we say that freight business must be a business commercially run and generating its own capital. Therefore it must pay. What does it pay in the way of joint costs?

We then say to ourselves, what costs do we avoid if the freight business wasn't running, and that is our avoidable cost formula.

If it would be of any interest, I would show you our document on this which is an attempt to divide this formula over various parts of the business. But this, it seems to me, is the exposed nerve of the problem of financial controls in railways.

I think there is much more to be done. Perhaps between us we can try to pick the brains of your people as they are trying to pick ours.

Our formula is intertwined in this document and perhaps Mr. Reid might like to take the matter a little further.

Mr. REID. There are great problems, as Mr. Madigan has suggested, in identifying the true costs for individual services.

Our present passenger services contract with the Government is a global contract covering all our passenger services within a single lump sum payment. We do, however, break these services down into groups. We have rough costs available, and they are certainly not precise, to give us some view of how profitable or unprofitable these groups of services are.

We don't take it down to an individual train basis because it is too complex—it is the group of trains forming the service that really matters. So we have a similar problem as you, and I suggest what we really need to do is to get our minds together on the issue, perhaps starting with what we have given in our written evidence, and see whether in 2 or 3 years' time we might not have developed a system which will in fact enable us to define much more precisely the contribution these groups of services are making or not making to the total costs of the system or to the allocated costs of the passenger network.

Sir PETER PARKER. The thrust of our advance on this subject is to go away from the old-fashioned attempt to look nigglingly at things line by line because this is where I think madness lies. You have to look in terms of the network and the total business.

I think when we consider the past history we went through a period when this analysis was used and a lot of lines were knocked out of the system. But in fact if we keep cutting away at tributaries we dry up the river and weaken the whole network.

So I think we are today moving very much more toward a more sophisticated approach and not attempting to justify it line by line. In that way we look at the market needs and then the network needs and work our way through it.

In 1968 the Transport Act really totally changed the basis of how to run railways in Britain. When the nationalization act was passed in 1947 we were then common carriers. We had tribunals on rates.

After a lot of experience, 20 years later, in 1968, the act came along with a new realism and said there must be parts of the system for which we have a social obligation and other parts which are commercial. Then that act presented people with the problem of the analysis that, Mr. Madigan, you raised.

The result of that was that people were examining people and there was almost a bureaucratic pileup of people checking people and really no satisfaction.

In 1974, the approach was then put to one side and the network approach adopted which says:

Look, a part of this system is socially obligated but let us do it as a total network and not attempt to get into this mess of the line-by-line analysis of a big service.

Mr. MADIGAN. I think Sir Winston Churchill said we were two countries separated by a common language. Before I ask you the next question I need to know if in Great Britain you are still talking in terms of feet and yards and miles.

Sir PETER PARKER. What were those words again?

Mr. MADIGAN. We too have this triangle, and I wonder if you know off the top of your head how long in miles each side of the triangle is?

Sir PETER PARKER. Would you like to give that, Dr. Spring?

Dr. SPRING. It is 300 by 400 and the square of the hypotenuse is that way, about 500 miles. That would be 300, 400 and 500 miles.

Mr. MADIGAN. In the United States we are trying to operate passenger trains distances of several thousand miles, 1,000 and 2,000 and in some cases it is 3,000 miles. That of course, is being done in competition with commercial airlines.

Would you attempt to do that if you had the opportunity to do it? Would you attempt to run a passenger train 3,000 miles in competition with an airline?

Mr. REID. It would depend on the characteristics of the market. I don't know what it is but if it was an end-to-end one and if it was just taking people across from New York to the west coast in one hop, it would not work unless you are going to be competitive in speed to the airline.

But there must be a lot of intermediate business and you have to analyze what that is.

Sir PETER PARKER. If in that 3,000 miles there were intercity links we would be interested because we regard the intercity business as very promising. But the 3,000-mile hop seems to me totally uncompetitive in one go.

We have to compete with the airways and the airways shuttle between London and Scotland but these are much smaller distances. Basically intercity is an attractive service if your 3,000 miles is made up of a lot of links.

Mr. MADIGAN. We have some passenger trains where the cost to Government per passenger per ride after the passenger has bought and paid for his or her ticket exceeds \$100. In some cases it is as high as \$125 per passenger per ride. Do you have anything like that?

Mr. REID. Nothing like on that scale, no. We cannot break down our Government payment on a per service basis, but in average terms the payment works out at around 50 pence per passenger journey; that is, 50 percent of a pound or around \$1. That is about as far as we can say.

Mr. MADIGAN. Then the per subsidy per ride that you have in U.S. dollars is about 40 cents per mile and ours is \$122.55?

Mr. REID. The circumstances are different, but if you say an average of \$1 per passenger journey or 2 pence—that is 4 cents—per passenger mile then factually you are correct.

Mr. MADIGAN. Would you take this system if we would give it to you?

Mr. REID. No.

Mr. MADIGAN. I think an important question in trying to assess the passenger service system is how you go about making a judgment as to whether or not a new passenger service would be both profitable and in the public interest.

Sir PETER PARKER. Yes.

Mr. MADIGAN. Do you have some formula that you use for doing that?

Mr. REID. We make a market analysis and an assessment of the demand and the competitive situation. We see what price you can get and what the costs are going to be. There is no formula other than a very hard appraisal over a long period.

Sir PETER PARKER. I agree entirely with that. I think one doesn't want to presume anything about the problems one is going to only glimpse in this short visit. I sense that the real problem in the kind of issue that you raise is giving oneself proper time to do the market strategic analysis that really can be or must be the foundation if one believes in the market.

It must be the foundation of every other strategy, technology, organization, and everything else. The real problem when crisis comes in our experiments on railways is this extraordinary difficulty of people wanting quick solutions in an industry which has a long time scale.

Another problem is getting the political minds in our country to come to terms with the lengths needed to produce proper passenger strategies. To lay a proper passenger strategy you need to be sure that people have time to do it.

I think we have had 30 years now of a mixed economy, and we have had 30 years of solutions and the pendulum has swung between centralization and decentralization. We were regulated to start and thank goodness we were unregulated and can fight competition. The pendulum has swung like that. This has given us new rhythm of analysis of what we are going for, whether we think we have got the mode which can win, whether we want to back out of certain competitive areas and attack other areas.

I think that is the lesson that probably Bob Reid was talking about. We are working on passenger strategies now for the year 2000. I am sure your Amtrak must be doing the same because we would regard that 40-million of people corridor as one of the greatest railway marketing opportunities there is. That would be our assessment.

But you have to get time to define that.

Mr. MADIGAN. I have ridden your 125-mile-an-hour train. I am very impressed with it. I think it is an excellent train. I was very much impressed with the conditions of the roadbed and the general appearance of everything. Everything seemed to be in excellent condition and very well maintained.

One of the things I did not find out while I was there was whether or not the freight trains used the same track and roadbed as is used by the 125 mile-an-hour train.

Sir PETER PARKER. There are special freight lines that we have, but indeed the track is shared in an overwhelmingly number of circumstances.

Mr. REID. Our axle-loads are fairly low. We generally work on a 22½ ton axle-loading, with up to 25 tons per axle on specific routes, which I believe is much lower than what you have in this country. We certainly know that heavy axle-loads do break up the track.

Mr. MADIGAN. In addition to regulating the axle weight of the freight train, do you also have a regulation as to the overall length of the freight train, the number of cars and the maximum number of cars?

Mr. REID. That is conditioned by the type of locomotive, the strength of the drawbar and the length of refuge and reception sidings along the route.

Mr. MADIGAN. It is conditioned by just the physical restrictions.

Mr. REID. Yes, there are physical restrictions but no actual regulations.

Sir PETER PARKER. The speed of the freight may be interesting.

Mr. ROONEY. I wonder if you would yield. There was no response when Mr. Madigan mentioned a system. Obviously you were talking about Amtrak. Is that correct?

Mr. MADIGAN. Yes.

Mr. ROONEY. I understand a British Railway subsidiary is under contract to the U.S. Department of Transportation as a consultant on certain aspects of the statutory reexamination of Amtrak. Is that correct?

Sir PETER PARKER. That is right.

Mr. ROONEY. Can you tell the committee about the involvement of British Rail in this effort. In particular, we would like to learn something about what you have done and what you are doing.

Sir PETER PARKER. Perhaps I could ask Ken Smith who is managing director of the group that deal with this to answer that.

Mr. ROONEY. How long have you been under contract with the Department of Transportation.

Mr. SMITH. On this particular contract we have been working since the beginning of this month. We are just starting, and it is a very short-term contract which will be completed at the end of October.

It might be of interest if we mention the subject of the contract. We are studying the current practices of providing various auxiliary onboard services such as first-class, parlor, sleeping car and catering, and their associated costs, revenues, and passenger use. Transmark will examine the impact of transportation revenue on varying levels of onboard services.

Transmark will establish a data base, recommend future pricing structures, estimate resulting revenue impacts, examine onboard assignments on the routes and study and review possible equipment redesign/reconfiguration.

I think it would be wrong for me to give any of the information which we have obtained during this study, so far but it might be of interest if I do make a comment on this.

It is very dangerous, perhaps, to compare two systems, the British railway system and the Amtrak system in the passenger field, but I would like to just put two or three figures to you.

The average American railwayman earns \$18,500 a year. The average British railwayman earns \$8,500 a year. That is less than half.

Now the average receipt which you get on Amtrak is 6 cents per passenger mile. On British Railways, and this includes the commuter services which are low priced, we get 6.5 cents. In other words, we charge more and our costs are much less. That may explain the disparity in the figures, and it is a way to explain the disparity in the relative results.

In another field, if you take a chicken meal which is a common thing which is served on Amtrak and on British Railways, that meal on Amtrak I think costs \$5.90 and on British Railways it is \$7.95.

In other words, in the context of our services and the market situation we have, we are able to charge more. I thought those figures might be of interest although I do emphasize that it is dangerous to draw conclusions or comparisons between countries from just simply figures of that kind.

Mr. ROONEY. Thank you.

Mr. MADIGAN. I would just like to pick up on that.

One of the reasons we on the subcommittee presume that Amtrak keeps its prices and structure as low as it is, is the requirement to compete with the privately owned motor bus operators, the Greyhounds and the Continental Transport and people like that in the United States.

Are there similar privately owned bus companies competing with British Rail?

Sir PETER PARKER. Well, we have another national enterprise with which we are in competition which is the National Bus Corporation. They run up motorways in competition with us throughout most of

the country. We therefore have to be as competitive as we can against them.

Part of the discounted fare and the marketing attack we have been putting in during the last 2 years has been to cope with the competition from them. Now as I say, Bob Reid was saying something I would say as to the \$1.2 billion revenue which we raised from passengers.

I would say we run around about \$4 to \$5 million on discounted tickets to make sure that we can remain competitive against them, that is against the rubber wheel.

Mr. MADIGAN. I think the only question I have remaining is something that this subcommittee also has responsibility for. That is the transportation of hazardous wastes. Is that a problem for you in British Rail?

Sir PETER PARKER. I think safety is a paramount priority for every railway in the world. I wonder if I could ask Bob Reid to describe what our recent record has been in that regard.

Mr. REID. I particularly think of nuclear fuels and spent waste operations.

Mr. MADIGAN. I am concerned about that. The chairman, Mr. Rooney, is also concerned as I am with the number of explosions that we have had on tank cars and things of that kind.

Mr. REID. We do carry substantial quantities of spent fuel rods from nuclear stations in especially constructed wagons which conform to the safety regulations. We have a long-term contract with our nuclear undertaking for this purpose.

In addition, we do carry fuel oil and other petroleum products. We also carry dangerous chemicals in tank cars. I think our records is better than the American railroads probably because our track bed is in better condition and our record of derailments is far less so we get less danger.

We do tend to carry in smaller quantities than you do. Maybe this follows from the construction of our tank cars in that they do not have the type of coupling you have over here. That has assisted us in our safety record. I understand that a number of incidents have happened here where the automatic coupling has actually ruptured the tank. We have fewer accidents, and we do not have that type of coupling.

Mr. MADIGAN. There seems to be a relationship between the derailment of tank cars carrying chemicals and whatever and the condition of the track and the weight of the trains operating on the track. Is that a reasonable connection?

Mr. REID. I think Dr. Spring could answer that because he has done enough research on that.

Dr. SPRING. I think I would like to make a comment. We regard the carrying of hazardous materials as an opportunity. Compared with the rubber wheel, the rail mode has many advantages.

First it is inherently safer because of the kind of track bed system. Second, it tends to run through less populated areas. Third, even if you do have a collision of some sort, normally the rail tanker is much less liable to rupture than the corresponding road counterpart.

So we think there are some very compelling reasons for carrying some of the hazardous materials by rail. If you look at the situation in this country, there is the same tendency for your heavy LPG tankers, these have high axle loads.

One of the differences in characteristics between American and British railways is that much of your track is spiked directly to the wooden cross ties. Therefore you have this gage spreading problem, particularly on curves.

Now British track is normally carried on baseplates with a special type of concrete sleeper. Therefore we do not experience the same type of gage spreading problems you do.

The result has been that the number of freight train derailments in the United Kingdom is very significantly less per ton mile counted as a whole than it is in the United States. We have for example something like 200 main line derailments per year.

I think your figure for the whole system, of course it is a much bigger system, is something like 8,000. The risk of derailment in the United Kingdom is significantly less than it is over here.

Then as Mr. Reid has just said, the risk of actual rupture we think with our system is quite a bit less than with yours. This is partly because of this question of the coupler penetrating through the end of the tank.

I had the privilege actually of being with your technical systems center in Boston something like 6 or 7 months ago. In that sense we are not saying we are better than you, but we are different from you. We had some very interesting discussions on the problems, for example on the way that the safety valves on wagons operate.

There is quite a lot of information which we can and do share in common at the working level on the handling of hazardous materials. But our experience has been on the whole somewhat comparable to yours.

Mr. MADIGAN. May I impose upon your good nature and those of our guests to ask one more question?

Mr. ROONEY. It has been the established rule of this committee that any member can have as much time as he wants. I never impose the 5-minute rule unless Mr. Skubitz is around and then I do it rarely.

Mr. MADIGAN. What you have just said leads me to believe that you may be right. One of the things I want to pursue is whether you do have standards for the track over which you would allow the operations of conveyance and handling of hazardous material. Is there some track where you wouldn't allow it and others where you would?

Dr. SPRING. This is true. It is also true in the United States. You have standards for different classes of both passenger and freight trains. We do ourselves have such standards. I think probably our standards geometrically are better than yours, our standards in the dynamic sense. By that I mean actual movement over the track is probably better understood and better insisted upon than over here.

One point perhaps is that you have limits for speed which are related to different standards of track. So far as I am aware you do not have limits of speed which are related to classes of cargo. In other words, if you have a track which is cleared for 50 miles-per-hour, then any locomotive and any wagon can travel at essentially 50 miles-an-hour on that track.

We would say that with certain classes of vehicles possibly they might be limited to 45 miles-per-hour. Even if the line limit were above the vehicle limit, that would be the ruling speed for that train on that particular track. There are differences of that sort between our system and yours.

Mr. MADIGAN. If I understand our system correctly, what we have is that as our track deteriorates, our Federal Railroad Administration lowers the maximum speed over which a train can operate on that track.

As it deteriorates further, the speed is lowered further. So we have a lot of 10 mile-an-hour track. One of the problems we have now is that we have trains derailing when they are standing still. We don't know what to do in those instances.

I do appreciate very much your coming here and being so candid with us. It has been a delight just to listen to people who understand this language of ours and know how to use it. I enjoyed it very much.

Sir PETER PARKER. Thank you very much.

Mr. ROONEY. I will yield 5 minutes to the distinguished gentleman from Kansas.

Mr. SKUBITZ. I get no respect out of the chairman. This is one reason I have decided to retire.

I want to apologize for not being here sooner, but through seniority I have reached the ranking position on the Interior Committee and this was our last meeting. I hope this is not coming out of my 5 minutes.

We were voting at our last meeting and reporting the last bills out. It just so happens that one of my bills is before the committee at this time which deals with a little project in my district that is very dear to my heart. Everyone in Congress is familiar with it. They call it the Fort Scott project. In fact they want to rename it the "Fort Skubitz Project."

What we are trying to do is have the Government take it over. We have been working on it for 15 years. It is completed now and I wanted to make sure that the transfer was made. I hope you will forgive me for not being here.

Mr. ROONEY. Will the gentleman yield? You must have switched your political philosophy. As I recall, in many of the bills before this committee you were always arguing about decentralizing the Government and now here you want to have the Government take something over.

Mr. SKUBITZ. Consistency is the product of little minds.

Sir PETER PARKER. Can we be of any help down here, gentlemen?

Mr. SKUBITZ. I had a number of questions that we wanted to ask and I am sure they have been covered because I see most of them have been erased.

There is one thing that bothers me a little other than rails. I greatly enjoy eating kidney pot pie when I am over in London. One question has always come to my mind. Where do you get all of the kidneys?

Sir PETER PARKER. We are men of great kidney, you know.

Mr. SKUBITZ. I don't know what questions have been asked but there is one that I would like to ask seriously. It relates to the size that the crew consists of on any train that operates, either a passenger train or on a freight train. Can you give me the size of them?

Sir PETER PARKER. Could I ask Bob to specify that? He was general manager of one of our major regions.

Mr. REID. It is difficult to generalize. On long distance our passenger trains normally have a driver and an assistant at the front end, on the shorter distances just a driver. Commuter trains also have just a driver. All trains have a guard.

Mr. SKUBITZ. What is that?

Mr. REID. The guard is the conductor or the man in the caboose as you say. On many of our rural services the guard is also a ticket collector, walking up and down the train collecting fares. We call these trains pay-trains.

Mr. SKUBITZ. Is that on your passenger train or freight train?

Mr. REID. On some of our passenger trains.

Mr. SKUBITZ. I see.

Mr. REID. So in general, long-distance passenger trains will have three crew, and a short distance train two. We work on a closed station basis for ticket collection on commuter and main line services.

Mr. SKUBITZ. Generally what do you consider long distance and what is a short distance?

Mr. REID. 200 miles is about the average long-distance journey. On freight trains we are normally down to one man at the front—the driver—and one at the back, the guard.

Mr. SKUBITZ. Now, do you pay your crews by the hour or by the day or by the number of miles that the train goes?

Mr. REID. Well, in general they have a guaranteed week for which they get their basic pay, then anything on top of that is overtime.

Mr. SKUBITZ. What do you mean by a guaranteed week?

Mr. REID. The guaranteed week is 40 hours, but there are quite strong incentives for working longer. Nearly all incentive pay is related to hours not distance.

Mr. SKUBITZ. Are your passenger trains operating on a profit or a loss?

Mr. REID. It is difficult to answer that in general terms, because we operate our passenger services within a predetermined lump contract price paid by the Government. Within the network substantial number of services operate only because they have been decreed by the Government to be socially necessary. So you can say that in ordinary commercial terms our passenger business is not profitable. But there is a part of it—the intercity part—which does make a very substantial contribution toward overheads.

Sir PETER PARKER. One cannot foresee a time when the commuter business can ever pay. I cannot see that. Therefore one is living with that huge uncommercial but publicly necessary lump.

Mr. SKUBITZ. In other words you think it is essential to maintain it even though it might operate at a loss, and the big problem you have is trying to reduce the loss. Is that correct?

Sir PETER PARKER. Well, the problem I have is producing value for money because my product is there. It is the social decision of the Government to use the rail solution. If I were asked to build a battleship and the Government was buying a battleship, I would be making a loss by building a battleship. I have a product that they bought and unless we can get into that stance you will have a railway always looking down in the mouth and its colors dragging in the dust.

Therefore I say here is the product. If you want the railway solution for a great metropolis and if that is the way to run London and maintain it as the financial capital of the area, and maintain the quality of living there, in my view the rail solution is a good product.

The passenger is getting the subsidy and the commuter is getting the subsidy and not us. Our books are open. What we have to show is that we are giving value for money.

Mr. SKUBITZ. I thank you for that answer. Now as to your trains, I have experienced riding on them. I think they are some of the best in the world. I want to say that to you, Sir Peter.

I have ridden the fast train in Japan which is an excellent passenger train. I am inclined to and I do agree with you that we have to look at the passenger train as being a public necessity. It has to be operated.

Now my colleague, Mr. Madigan, raised the question about the conditions of our tracks in this country, that the train can be derailed standing still. I think that was his statement. It isn't quite correct, but is quite close to it in a number of instances. This has always raised one problem in my mind. That is in our country the rails are owned by the companies that operate the different rail companies and not by the Government.

I have never convinced myself that it is the responsibility of a railroad company to maintain a roadbed sufficient and good enough to run passenger trains over it at a rate of 125 miles per hour when it doesn't operate passenger trains. We operate them.

So we reach a place there where Amtrak is trying to get an improved road and the railroad is saying, "So what? We are running a freight service in this country and it is hard enough to keep our tracks up well enough for the freight service."

I have suggested on a number of occasions that perhaps what we ought to do in this country is for the Government itself to take over the roadbed on a lease basis. The title still remains with the company but there is a lease for say 50 or 100 years. In the use of the track or the maintenance of it, the Government would be responsible for maintaining those lines, particularly the lines over which passenger trains travel and freight trains travel too.

In turn we could charge back to the freight companies some sort of a fee for the use of the track over a lease period on a tonnage basis.

Now I see one advantage coming from that and maybe two. One is that it would relieve the railroad company of fixing up its tracks for passenger service and relieve them of some of their labor problems.

In the second place, it would give the Government an opportunity to take care of a lot of this unemployment during a period where there are large numbers of people unemployed in the country. We have got rail lines running through every State of the union.

Today our passenger or rail companies, when business is good, don't have the time to take care of their rails. When business is bad, they don't have the money, whereas Government itself operates in the reverse. When times are bad, we need jobs, and it would be much easier to regulate the entire tonnage charge rather than always subsidize for the upkeep.

I am starting to talk like a member of the Socialist Party. I realize that.

Sir PETER PARKER. I didn't recognize it quite as that, Mr. Skubitz.

Mr. SKUBITZ. What do you think of such a proposal? Would your country consider such a proposal, or your government?

Sir PETER PARKER. It has been quite frequently debated as to whether the infrastructure should be separated and the railway then left to run. I have the gravest doubt that that is a sort of solution that would really define the necessary relationship between the railway corporation and any government.

The Government would then become involved in this very difficult assessment of the infrastructure and its integration into the normal operation of your railway. It would open a door to an immense amount of possible tension between the operator who wants a certain quality of track and the Government which may be changing. It is taking its own view of the quality of that infrastructure and the signaling and the whole of this key part of a normal railway operation.

Now it is very tempting to go your way, Mr. Skubitz. We were saying among ourselves, it is a telling argument that you are putting up.

But as operators of a railway, we feel we can eventually produce a more economic service if we have all of the components of the service under one management. That then has to justify itself.

Mr. SKUBITZ. What you are talking about is taking over the whole system, freight and passenger.

Sir PETER PARKER. We are doing that now. We own our track and it is very important. This way we can then integrate the planning and technology of the track with our marketing needs of the service. There isn't a possible continual tension which might happen if you made the arrangement that you suggest.

I shall just give an example of the kind of worry that I think I would have about that solution. When I was just beginning on the railways I was having a meeting with a number of my colleagues on the Great Western Region we have. That is "God's wonderful railway." At dinner we were lamenting the fact that ministers come and go and governments change. We felt a need for consistency for long-range planning.

I think I calculated out loud that there had been 14 ministers of transport since nationalization. One of my colleagues was puzzled when I asked him if I got it wrong and he said, "Oh, no. I was calculating for myself that we have had 14 civil engineers on the Great Western Region since Brunell in 1836."

Now Brunell was the great one in 1836. Now the stamina and integration of your whole civil engineering is a different time scale than the political mind that might become involved if you gave them the track.

Mr. SKUBITZ. May I say this: I don't think there is a chance in the world to get that sort of a program here until it is forced upon us in this country. Even I am looked upon as being a bimbo for even suggesting taking over the tracks.

My chairman has already submitted his pink sheet. There is a red one usually which follows advising me that they are voting on the floor, and so Mr. Chairman——

Mr. ROONEY. I am coming back.

So the committee will stand in recess for 10 minutes.

[Brief recess.]

Mr. ROONEY. To what extent has the British Railway been able to achieve a coordinated overall freight service?

Sir PETER PARKER. I think that the basic transport environment as we have been describing it, Mr. Chairman, is that we have to live competitively. There is the keenest competition among the public sectors of transport.

Given that, there is this basic premise of having to be competitive. We try our best then to see if we can define what each mode can do

best and work on that position. In my view there is after some experience the possibility of what I call a commonwealth of transport approach. That is the old hard-edged integrated transport policy in the minds of those who nationalized railways in 1947 when the whole lot was nationalized, the trucks and the trains.

The result of the modern flexible transport system for an industrial community has broken that pattern of integrated transport into the competitive modes. Given that, we know that we now have to define what each mode can do best and we keep very close with the national bus corporation on liaison committees, on analysis of markets, and sometimes set up transport exchanges where they are working to our stations. We do the same.

We help the airports. We have recently acquired again Freight-Liner. It is a container company which of course uses rubber wheels and uses the trainloading for the main part and rubber wheels at either end.

So we would say that we have help within the competitive environment depending on the proper kind of coordination.

Mr. REID. Could I supplement that? Our Freight-Liners Co. is a wholly owned subsidiary of the British Railways Board. It operates from terminals throughout the country. Deep sea containerships docking at Southampton and other ports provide a major business for it. In a year, we transport probably on the order of 750,000 containers.

Mr. ROONEY. In your statement, Sir Peter, you say the United States, like the United Kingdom, has gone through a continuing process of railway unification and centralization. With such large organizations, how can you delegate the management responsibility to maintain the efficient decisionmaking and definite management personnel that you so eloquently discussed?

Sir PETER PARKER. I think one is always concerned in any big corporation to maintain organizational structures where every individual, whether he is management or not, has some sense of individual scope, some sense that what he does really matters.

I think I take the spirit of your question as absolutely fundamental to rail enterprise. We as an organization have got to beware, if we are 240,000 men strong, that we don't end up in a kind of collective sludge of bureaucracy.

It is deeply important that we should organize a structure so that people know where they are.

Well, first of all we have the groups-within-the-group philosophy that is overall.

Mr. ROONEY. Do you have that table of organization in this packet?

Sir PETER PARKER. Yes, we have, sir. That will help, I think. And we have those businesses we want to see running as businesses, and the first thing is to make them independent in their responsibilities and accountability. It is absolutely vital that we should have a spirit of what I call groups who are independent but coordinated. That is the top structure that we aim for.

Each of these groups, independently, have their boards and on those boards are nonexecutive members whom we borrow from the private sector. There is a mixed economy approach over the hotels, over property, over shipping and hovercraft. This is one way of giving that sense of independence and you break it down that way.

Then I think if you take railways, by far our biggest business, we break that down between the corporate headquarters, Bob Reid here,

and the marketing and operating responsibilities throughout the business.

But under the railway executives there are regions with general managers. We try and delegate through those regions to divisions and areas. This is the way we try to maintain that vitality which is absolutely necessary. We delegate into the smallest possible groups as I was mentioning.

We have John Thring here, commercial director of our engineering group which is 35,000 strong. Therefore that again has to be given its responsibilities. We deal contractually as railways with him to supply. I think it is absolutely vital that that kind of tough edge relationship be established between the groups so people know where they are.

Our shipping company has a contract with the rail company. It is a way I think of perhaps keeping the proper tensions going. It produces stress and strain, but after all, stresses and strains keep the building up.

Mr. THRING. I wonder if I might speak as one of the board members of a major subsidiary of British Rail in confirming one or two points that Sir Peter made.

We in fact enter into contracts with the railway. Our turnover is of the order of \$700 million per year and of course the greater part of this is appropriated by the railway for maintenance of rolling stock, building new vehicles and the like.

But in a large undertaking of this size, one can't guarantee that the capacity is fully utilized every year. We have the freedom to sell and bid for work outside. This we do for varying extents, depending upon the degree to which it is necessary.

As Sir Peter mentioned earlier, we have an order book for import work. Most of it is transport, amounting to £90 million or \$180 million. This work we have bid for in the international market in exactly the same basic way we price and negotiate with British Rail. This gives us confidence that we are operating efficiently.

We hope it gives British Rail confidence that they are getting value for money. Out of our commercial work in the worldwide sense we not only make a profit, but we earn a very big contribution to absorbing overhead which the Rail Way would otherwise have to pay or absorb as our major shareholder.

Mr. ROONEY. Thank you very much. I have been informed that our star witness, Mr. Skubitz, is having lunch with the sunflower girls in the elementary class of the Kansas City schools, the class of 1911. They were all sitting back there and they have just left. He is holding their hand over on the floor, and he will join you for lunch. Unfortunately, Sir Peter, he is unable to be back here.

I can't thank you enough for coming to this committee today and for the valuable contribution you and your colleagues have made to this committee.

I also want to thank personally Mr. Smith, Mr. Thring, Mr. Reid and Dr. Spring. I was wondering whether there was any relation between Mr. Thring and Dr. Spring. You have made a valuable contribution to our committee.

Sir PETER PARKER. Thank you very much, indeed.

Mr. ROONEY. This concludes our hearing. Thank you.

[Whereupon, at 12:10 p.m. the subcommittee adjourned.]

